

THEORY
OF
CO-OPERATIVE CREDIT

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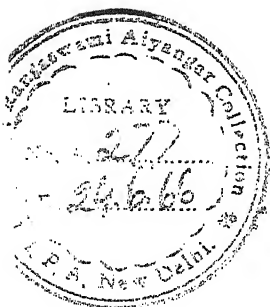
A BRIEF SKETCH OF THE CREDIT SYSTEM

BY

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SECOND EDITION

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ORIGINAL PREFACE (REVISED)

THE frequent meetings of the International Congress of Co-operation in recent years may be taken as an evidence of the interest that the world is showing in co-operation, but while economic writers have devoted their attention mainly to distributive and productive co-operation, hardly any literature seems to exist on the subject of co-operative credit. As it appears that this form of credit has shown very beneficial results during the last sixty years of its existence, an attempt has been made here to examine the principal facts connected with it, and to ascertain its nature, methods and principles. In the first presentation of a subject to the student, for whom this treatise is written, it was not desirable to oppress his mind with a mass of unimportant facts in which the main issues are likely to be obscured, and so, such facts have been omitted, but an Appendix is added from which the authenticity of facts used herein will be judged. It is obvious that, unless a theory is constructed by a correct process of reasoning and is a truthful expression of existing conditions, it can serve no useful purpose; and so, an attempt has been made here to reason by the inductive process whenever possible, that is, when facts were available. I am, however, conscious of the weakness of my attempt at points in which the deductive method had to be used owing to the absence of particular data, because this reasoning has proved by experience to be hypothetical to some extent—a fact which is well known. Of course, no theory based merely on induction can apply to conditions that change with time.

In connection with co-operative credit in India, I found it necessary to touch upon the 'famine problem.' In the analysis of this problem (in pp. 101-103), I have adopted an order of examination which should tend to exclude hypothesis from the basis of induction, as this element is too often apt to intrude on ground where only facts can be admitted. This order is not unknown and seems to be very helpful in the investigation of complex economic conditions. In the study of Indian economic problems, it is hardly necessary to say that an attempt should first be made to arrive at inferences by the inductive process, and then the deductive conclusions drawn from Western economic conditions applied. In fact, we cannot place so much reliance upon the deductive method as there seems a tendency to do at present in India. There would be no little danger in showing such a preference with regard to an applied science. In this connection, I cannot help quoting Dr. J. N. Keynes who very justly remarks that "Mill, Cairnes and Bagehot, however, all insist that the appeal to observation and experience must come in before the hypothetical laws of the science can be applied to the interpretation and explanation of concrete industrial facts."¹

I have to acknowledge my indebtedness to the books and reports mentioned in the Bibliography from which I have derived almost all my facts and figures regarding co-operative credit. My attempt has been to ascertain the principles rather than to describe the methods of this credit, and so it is more a theoretical than a practical

¹ *Vide* Keynes' "Scope and Method of Political Economy," p. 17.

treatise on the subject. From the latter point of view, no better treatment of this credit can perhaps be expected than Mr. H. W. Wolff's admirable book on "People's Banks." I trust that the statistics given in the Appendix will serve to verify some of the conclusions drawn herein. While co-operative credit is being utilised in almost every civilised country, a statement just issued by the Government of India shows that its extent in this country already bears comparison with its extent in Germany, the country which leads the world with regard to this credit. I have to thank the Registrars of Co-operative Societies in India who have furnished me with valuable facts—particularly Mr. J. M. Mitra, M.A., the Registrar in the Bengal Presidency, for his kindness in allowing me to use his excellent library of reports and official publications on this credit in various countries and for his generous support of this book.

CALCUTTA,

THE AUTHOR.

16th February 1914.

PREFACE TO THE SECOND EDITION

THE need of a treatise on the theory of co-operative credit was evidently felt by readers of economics, as the first edition of this book, which was a smaller treatment of the subject, was accorded a ready reception mostly by college professors and students. To their generous support is due the issue of a second edition. In this edition the improvements consist mainly of an attempt to show the position of this credit in relation to the larger credit system, and for this purpose it was found necessary to include a brief sketch of this system. No apology is needed for a further investigation on this subject which is admitted to be an important development of modern economic life. Since credit has come to circulate almost the entire wealth of civilised countries, it has been realised that economic progress cannot take place without the growth of the credit system; and, it is needless to add that in countries in which wealth is insufficient, credit is the only process by which capital can be organized.

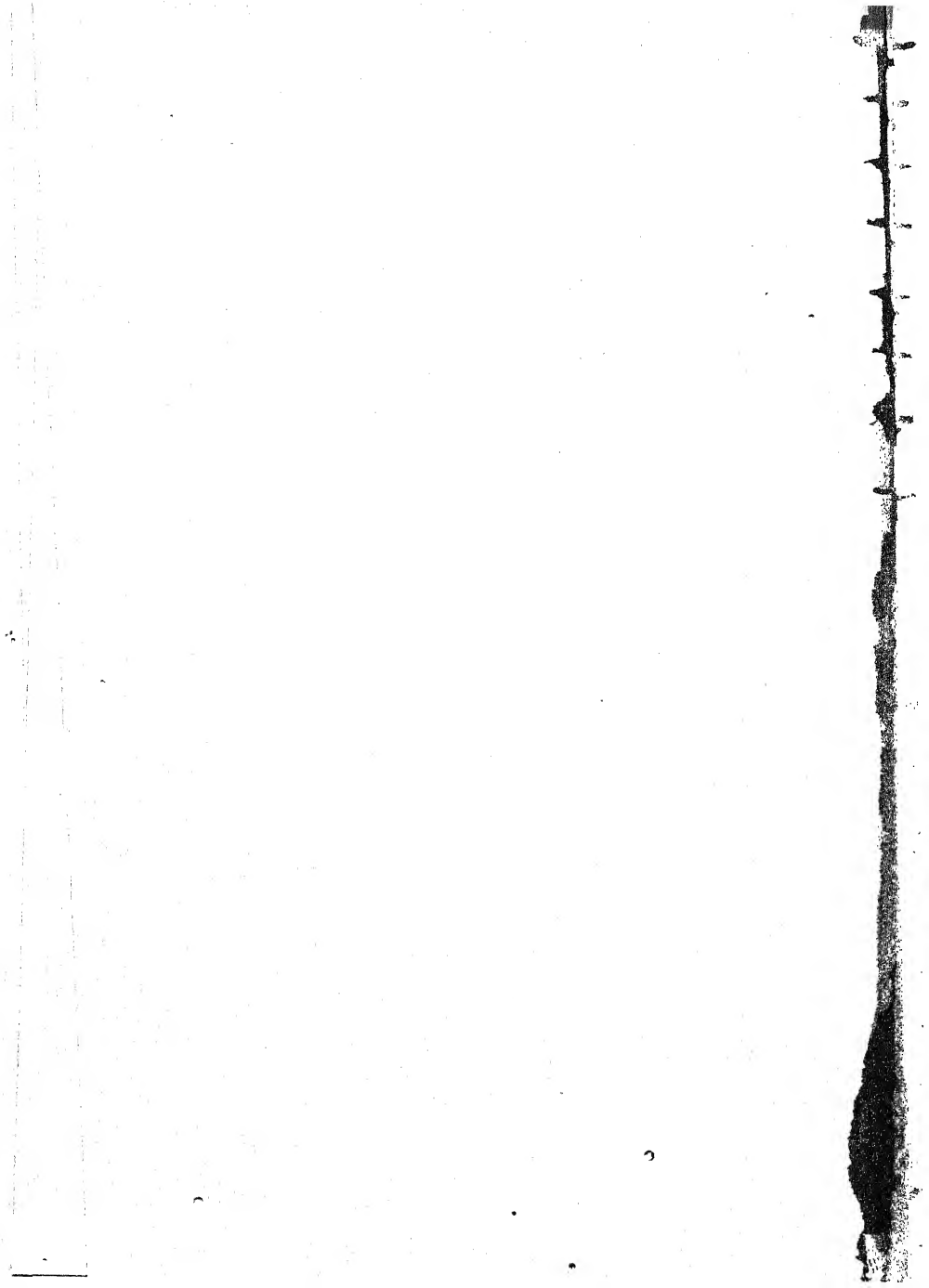
The present treatise is meant to stimulate further inquiry on the subject of co-operative credit which has been described as *the manufactory of credit from its raw materials*, for reasons explained in pp. 180-192; but this little work does not by any means presume to have exhausted its study. On the contrary, it occurs to me at the close of my inquiry that the first chapter on 'the evolution of co-operation' might have been more explanatory.

Of course, there is every desire on my part to remedy this and other shortcomings or errors that may be brought to my attention. I have to acknowledge my indebtedness to the Rev. Mr. E. D. Lucas, M.A., of the Economic Faculty of the Panjab University, for some valuable suggestions on the treatment of this subject and his kind interest in my work.

CALCUTTA,

15th July 1915.

THE AUTHOR.



CONTENTS

CHAPTER I

THE EVOLUTION OF CO-OPERATION

PAGE

Co-operation found in the animal kingdom.—Observations of Herbert Spencer on this co-operation.—Co-operation among men found chiefly in their economic, juristic and ethical systems.—Co-operation, a fundamental principle in human society.—The increasing importance of co-operation in the study of economics.—Another important principle of sociology connected with co-operation.—Simple co-operation.—Compound co-operation.—The industrial revolution was the cause of a rapid development of co-operation.—Conflict between capital and labour.—The methods of modern co-operation.—Trade unionism.—A form of co-operation having its roots in the mediæval 'guilds'.—Co-operative distribution.—Co-operative production.—Keen competition tends to degrade human nature.—Co-operative credit, an effective process in the exchange of wealth

1-16

CHAPTER II

THE SYSTEM OF RAIFFEISEN

Raiffeisen—the founder of this form of credit.—His principles.—Honesty a basis of credit.—Limited area.—Unlimited liability.—No shares nor dividends.—A check on imprudent borrowing.—The ordinary reserve.—The indivisible reserve.—Gratuitous service.—Educative influence of societies.—Their moral effect.—Constitution of societies.—Their democratic basis.—The growth of the system.—Rules of societies.—The law compels a change.—The simplicity of business in these societies.—Their utility tested by scarcity.—The confidence of the public in these societies

17-26

CHAPTER III

THE SYSTEM OF SCHULZE-DELITZCH

Schulze, the joint founder of this credit.—His early difficulties with Lassalle and the State.—Lassalle urges his 'iron law of wages' and throws the people on the help of the State.—The opposite views of Schulze who advocates co-operation and self-help.—The details of his scheme.—His principles.—How these principles are applied in his system.—The constitution of his unions.—How the unions increased but departed from the founder's principles.—Prussian Land Banks contain the germ of co-operative credit.—Defects of the Schulze System.—The different means adopted by the founders.—The want of self-sacrifice makes co-operative distribution a defective system.—In poverty all men seek co-operation

30-44

CHAPTER IV

THE SYSTEM OF LUZZATTI

PAGE

Italy exploited by usurers in the past.—Luzzatti forms the 'Banca Popolare.'—Its essential features.—The principles of the founders modified by Luzzatti.—Material security retained as an essential basis of credit.—Its democratic constitution.—The 'consiglio.'—The 'comitato.'—The 'probitviri.'—The 'sindaci.'—Luzzatti forms his basis of credit on 'acceptances.'—The main difficulty of Luzzatti.—The bulk of his business.—Why Luzzatti adopted limited liability.—The working of his banks.—Option of area.—Urban situation and limited liability.—Short loans.—Membership usually non-agricultural.—The 'loan of honour.'—The reserve fund.—Why these banks are co-operative.—The growth of the 'Banche Popolari' ... 45-57

CHAPTER V

UNIONS OF THE FOUNDERS

Union of Raiffeisen societies.—The main objects of this federation.—Its credit facilities.—The Central Bank at Niewied.—Federation in the Schulze system.—Its objects.—Greater benefits accrue from the union than were expected.—Why the study of collective interests is useful in economics?—The weakness of the Luzzatti system without federation. ... 58-65

CHAPTER VI

ALLIED SYSTEMS IN EUROPE

How these systems have spread abroad.—Adaptations of Raiffeisen and Schulze in Hungary and Austria.—The associations of Haas.—The Raiffeisen system in Italy.—The 'Casse Rurali.'—Early attempts to plant this credit in France.—Some causes for their failure.—The 'Banque Populaire' of Mentone.—An union of town and village banks.—The 'caisses rurales' reproduce the system of Raiffeisen in France.—Agricultural syndicates and independent credit societies.—Local Banks.—Regional Banks.—The state in relation to this credit in Germany.—State-aided credit in France.—The State in relation to this credit in India.—Co-operative credit in Russia.—Difficulties in the way of its development.—How these difficulties have been overcome.—This credit is spreading all over the world.—Its prospects in the United States ... 66-85

CHAPTER VII

THE INDIAN JOINT-VILLAGE

Places where joint-villages have existed.—Some customs in these villages.—Their ownership depends on inheritance.—Their constitution.—The 'Panchayat.'—Unseen economic foundations.—Joint and several responsibility.—Self-sacrifice.—The main causes of dissolution.—Social sentiments have no connection with their dissolution ... 86-97

CONTENTS

xi

CHAPTER VIII

CO-OPERATIVE CREDIT IN INDIA

PAGE

The indebtedness of agricultural people.—Usurious ways of the money-lender.—This credit should solve the famine problem.—An inquiry into this problem by the State.—An analysis of the situation before the occurrence of a famine.—Attempts to form agricultural banks.—Why special Legislation was needed.—A spontaneous growth of this credit desired by the State.—The movement inaugurated by the State.—Membership restricted by area and community.—The bases of liability.—The honesty and trustworthiness of members.—Thrift an essential virtue.—Punctuality required in repayment.—The need of education and training.—The organisation of capital.—Shares in societies with unlimited liability.—Shares in societies with limited liability.—The reserve fund.—The investment of this fund.—The security of loans.—The restriction on loans.—Withdrawal of State subvention.—The rates of interest.—Gratuitous service.—The constitution of societies.—Duties of the general assembly.—Duties of the 'panchayat.'—Duties of supervisors.—The federation of societies.—Its liability.—Details of the scheme.—Audit and inspection.—Progress of this movement ... 98—137

CHAPTER IX

CREDIT IN EVOLUTION

Transport and communication have led to an extension of exchange.—An extended system of exchange has improved our knowledge of human conduct.—Confidence between man and man is due to this knowledge.—The rise of the credit system.—Credit is a process in the exchange of wealth.—Originally credit was used for consumption.—Modern credit usually aids production.—The appearance of credit instruments.—The views of Mill on credit.—The confusion between credit and capital.—A definite concept of credit.—Trust.—Security.—Risk.—Credit is essentially a transaction between persons.—Credit based on goods fails to serve two useful functions.—A crude type in the credit system.—The progress of credit.—Some trust is required in almost every department of economic life.—How money is connected with credit as a measure of value.—How money is connected with credit as a medium of exchange.—Credit as a medium of exchange cannot always satisfy present value.—Standard coin.—Token coin.—Standard money is not the considerable cause of the value of credit.—The credit of the state.—Convertible paper money.—Inconvertible paper money.—Representative paper money.—Bank-notes indicate a sound credit in the banking system.—Bank-notes and convertible paper money.—Fiscal measures to secure the redemption of bank-notes.—These measures do not exclude risk from the soundest form of credit.—Commer-

CREDIT IN EVOLUTION—*concl'd.*

PAGE

cial credit.—Negotiable credit instruments.—Credit and banking.—The functions of a bank.—Banks borrow usually by their 'deposit' business.—The regular methods in banking.—Banks lend usually by their 'discount' business.—Banks lend also in other ways.—The relation between credit and banking.—Credit and foreign trade.—The rate of exchange.—Credit and internal trade.—Money and credit are mutual substitutes.—Credit has displayed extensive utility ... 138—176

CHAPTER X

CREDIT IN CO-OPERATION

Some important stages in the evolution of credit.—Confidence does not arise in all forms of credit in the same manner.—Business efficiency is considered in credit for production.—Credit balances itself between security and risk.—The scope of credit in co-operation.—How credit in co-operation originates largely from the needs of agriculture.—The peculiar nature of agricultural credit.—Why Raiffeisen adopted co-operation as an effective process.—By co-operation he secured the material basis of his credit.—The moral basis of credit in Raiffeisen's system.—He insists on honesty by rigorous rules.—The early endeavours of Schulze—the joint-founder of this credit.—The principles in the system of Schulze.—His greater reliance on the material than the moral basis of credit.—There can be no wage-system in true co-operation.—Why the system of Schulze must be regarded as a foundation in co-operative credit.—How this credit was planned by Luzzatti.—Luzzatti capitalises honesty with the help of a slender material basis.—Luzzatti's views on the foundation of credit.—Limited liability does not change the fundamental process in the system of Luzzatti.—Distinctions between co-operative and individualistic credit.—The causation of confidence differs somewhat in the two sections of credit.—An enquiry into credit as reflecting interest in co-operative credit.—The general conditions which bring about the rise and fall of interest.—There are no special conditions affecting interest in co-operative credit.—The maxims of the founders and their resulting methods.—Too great a reliance on the material or the moral guarantee does not help credit.—Modern credit tends to equalise its dependence on guarantees.—Modern credit is based on an extensive foundation.—The functions of co-operative credit.—The utilities of co-operative credit.—The circumstances under which co-operative credit was devised.—The modern competitive system was a direct cause in the organisation of this credit ... 177—212

APPENDIX—A Record of Facts	...	...	i—xxxii
Do. (contd.)—Statistics	...	...	xxxii—xli
Bibliography of Information	...	...	xliii—xliv

THEORY
OF
CO-OPERATIVE CREDIT
CHAPTER I

THE EVOLUTION OF CO-OPERATION

By a little reflection upon certain facts connected with the habits of men and animals, it appears that co-operation or the working together of individuals enters into the lives of many of them as a natural economic process. In the animal kingdom, we cannot fail to observe co-operation manifested as an instinct by various species in their conduct and preservation of life. This instinct is generally displayed by them in the fulfilment of a purpose that is of an economic nature. It is displayed either in their building of habitations, in their storage of food, in their search after victims or in their defence against enemies. Naturalists have also observed some notions of property inherent in almost all animals, for their habitation whether a den, a hollow or a nest will seldom be invaded by a stranger, and, if this is done, the owner will not abandon it easily. Among gregarious animals, the pasture on which a herd feeds will generally not be encroached upon by others. If the notions of

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Observations of Herbert Spencer on this co-operation.

the right of property imply a greater intelligence than the notions of co-operation, can it be doubted that the lesser one is found among certain species? "There exist various groups of super-organic phenomena," observes Herbert Spencer, "of which certain minor ones may be briefly noticed here by way of illustration. Of such the most familiar, and in some respects the most instructive, are furnished by the social insects." Referring to bees, wasps and ants, he remarks that "the processes carried on by these show us co-operation with, in some cases, considerable division of labour. * * * Some degree of co-operation is shown for offensive purposes by animals that hunt in packs and for defensive purposes by animals that are hunted. * * * Certain gregarious mammals, however, as the beavers carry social co-operation to a considerable extent. * * * Finally, among sundry of the primates, gregariousness is joined with some subordination, some combination, some display of the social sentiments. There is obedience to leaders, there is union of efforts, there are sentinels and signals, there is some idea of property, there is some exchange of services, there is adoption of orphans, and anxiety prompts the community at large to make efforts on behalf of endangered members."¹

In the human race, certain forms of co-operation are discernable from the earliest times and among the most uncivilised people. From the sim-

¹ *Vide* Spencer's "Principles of Sociology," 1876, Vol. I, pp. 4-8.

plest operations performed by individuals working together, such as the cutting of a tree, the lifting of a weight or the digging of a trench, to the more complex ones in which these individuals divide their labours to accomplish the same end, such as the construction of an abode, the cultivation of a field or the weaving of a garment, co-operation has been resorted to as one of the best known economic methods.¹ This method is believed to have been simple in the primitive stages of industry and to have developed into its more complex forms with the development of the division of labour in the mediæval stages of industrial evolution. Nor is co-operation discernable only in the economic domain. In the continuance of individual life and security as well as of associated sentiments, so essential to the preservation of society, certain forms of co-operation appear in social, ethical, juristic and religious systems. In these spheres, co-operation begins with the union of the sexes and continues in the various forces which maintain the organisms of society. There is scarcely any department of sociology in which organisation and united effort are not manifest. In this manner we find that among animals and men co-operation plays no inconsiderable part in their various conditions of life. Professor Charles Gide, speaking of association, observes that "it is probably the most general of all the laws

Co-operation among men found chiefly in their economic, juristic and ethical systems.

¹ The differentiation of sex is probably the first indication by nature of the 'division of labour' on which all social efforts depend.

Co-operation, a fundamental principle in human society.

that govern the universe, since it is manifested not only in the relations among men living in society, but also in those that govern the planets of the solar system, those that unite the molecules of inorganic matter and the cells of organisms as well as those that rule human thought."¹ It appears now that co-operation is but a developed form of association, and it is quite possible that in this form it also operates as a law under certain conditions. At least one circumstance seems remarkable. We observe that *when the preservation of a number of living units becomes impossible by individual effort, they generally tend to co-operate.* The condition observed herein, not being sufficiently verified, could not with certainty be stated as a law, but among men this appears to be a fundamental principle upon which is based their economic relations in society; and, if we were to disregard this principle, it would be obviously impossible for us to explain how from millions of individual and dissimilar methods a single, ultimate end, namely, that of social preservation, is attained.

The increasing importance of co-operation in the study of economics.

Although economics is to be studied principally as a social science, in the competitive age we have not had the opportunities of investigating into many of the economic methods which are capable of being worked by the co-operation of men. Moreover, the 'struggle for existence' has weighed so heavily on our minds that there has been, perhaps,

¹ Vide Gide's "Principles of Political Economy," 1912, p. 156.

too great a desire to study the individualistic principles of this science.¹ "It is also true, as German writers have well urged," observes Dr. Alfred Marshall, "that economics has a great and an increasing concern in motives connected with the collective ownership of property and the collective pursuit of important aims."² If we investigate into the conditions which have arisen by the inclusion of co-operation in economic methods, we shall find that there has been no little economy of individual struggle, while the efficiency attained has been considerable. When we enquire further into the effects of corporate action in the larger methods of society, we come to the important inference that *the corporate efficiency of an organism is always greater than the aggregate efficiency of all its units working individually*. Sociologists have come to this conclusion in recent years after a study of social organisation. This appears then to be another important principle in sociology to which is mainly due the fact that the more organised type of society usually survives in the struggle for existence with weaker types. The main process in social evolution may be roughly explained in the following manner. When everybody seeks his personal interest, the interests

Another important principle of sociology connected with co-operation.

¹ Darwin formulated this theory upon a well-known economic doctrine. "In the next chapter," he declares, "the Struggle for Existence among all organic beings throughout the world, which inevitably follows from the high geometrical ratio of their increase, will be treated of. This is the doctrine of Malthus applied to the animal and vegetable kingdoms." *Vide* Darwin's "Origin of Species," 1903, p. 9.

² *Vide* Marshall's "Principles of Economics," 1910, p. 25.

The tendency of social evolution.

which are *most common* have the *greatest vitality*, those *less common* have *less vitality*, and so on.¹ The result of such a process must, therefore, be to continually eliminate individual interests and to substitute in their place collective principles. Yet few can gauge the nature of these principles without the study of collective endeavour. In fact, it may be said that the failure of men in the business world to attain a particular purpose after strenuous efforts is often due to their failing to ascertain the common purpose. Of course, nobody knows and nobody can direct the largest purpose in social evolution.² But this does not prevent us from studying the multitude of smaller collective purposes and principles. In economic evolution, there is reason to think that what we now understand as co-operative production, co-operative distribution and co-operative credit consist merely of the crude and early stages of phenomena connected with the collective principles of economic life.

Simple co-operation.

We have already observed that in the economic world *simple co-operation*, that is, the working together of individuals in which all go through the

¹ Self-preservation, the first natural law in the organic world, causes self-interest to become the greatest impulse of economic nature. Hence self-interest may be taken as the beginning of social evolution.

² Dr. Benjamin Kidd draws a conclusion which most of us must arrive at in the study of social evolution. He says that "it is not the human mind which is consciously constructing the social process in evolution, it is the social process which is constructing the human mind in evolution." -Read Kidd's "Social Evolution" and "Two Principal Laws of Sociology."

same process, has existed from the earliest times. We must not fail to observe other forms of co-operation often found in the clan, the tribe, and the village community. It is true that the origin of most of these associations, whether economic, social or political, is still wrapped in mystery; but that the motives which continued many of them were essentially economic can scarcely be doubted. Then, with the development of the division of labour, that is, the system of labour in which each individual goes through a different process but helps to produce the same good, in the mediæval stages of industry, *compound co-operation* appeared.¹ Economic writers have explained to us how this division, rendered possible by co-operation, has increased the productivity of labour. Yet this system in the processes of industry was only one form in which co-operation was visible during this period. The fundamental idea contained in this system, namely, the corporate action of individuals, spread from its use in the processes of industry to its use in the conduct and development of each profession. As-

Compound
co-operation.

¹ This form of co-operation is designated by some economic writers as *complex co-operation* and by others as *complex division of labour*. In view of the various forms of modern co-operation, which are really complex, this form is here described as compound co-operation, and, it is after all nothing more than the complex division of labour. We must, however, add that the concepts of co-operation and of the division of labour are so closely related that the one may be called a function of the other. The reason is that every form of *co-operation* implies a *working together* and this is impossible unless the *work has divisions* or fractions. Similarly, every *labour* that is *divided* must lead to a *complete purpose* which has to be known as *co-operation*. If any labour is independent or has no connection with any other labour, obviously it cannot be called divided labour. But it is doubtful if any such independent labour really exists.

sociations for mutual help and protection among members of the same trade or industry, known as *guilds*, were also formed in the middle ages. Down to this period, economic conditions appear to have been such that a very extensive system of co-operation was scarcely needed. But this need arose in the 19th century during the industrial revolution as will presently appear. Thus, we find that until the 18th century approximately, the progress of co-operation was evolutionary, its stages being slow and gradual from the simple to the complex conduct of labour.

The industrial revolution was the cause of a rapid development of co-operation.

The period of industrial revolution which commenced in Europe about the end of the 18th century opened up a new sphere for the development of co-operation. This sphere was created in a strange manner, inasmuch as it was the outcome of a conflict directly opposed to the principles of combination. With the invention of machinery, the use of steam, and the improvement of means for transport and communication, the working classes were to a large extent ousted from their accustomed spheres of work.¹ Scientific power then entered into competition with manual labour. The conflict raged chiefly between capitalists who were able to adopt the improvements of science and the labouring classes whose spheres of occupation were being thus reduced. It is apparent that, in this struggle, labourers were

Conflict between capital and labour.

¹A machine may be regarded as an example of the co-operation of physical forces operating with the definite purpose of saving human labour.

unable to obtain their means of subsistence, because the savings effected in the cost of production were almost entirely taken out of the general fund for wages. Industrial efficiency was evidently secured at the expense of the labouring classes, while it is not sure that this efficiency benefited consumers to an equal degree, as a portion of the savings had to be set aside for improvements. The new age, however, helped to raise a large number of employers to the position of capitalists, because they were able to adopt scientific methods and to determine where the savings finally effected should go—to themselves, to employees or to consumers.¹

Under these circumstances, complex methods of co-operation were devised. Some of these methods seek to lessen the power of capital and to increase the resources of labour. Others attempt directly to eradicate competition within groups of producers, distributors and consumers. Others again seek to organise capital by the formation of credit within particular groups of workers. We have observed before that co-operation in former times was chiefly concerned with the efficiency of labour. We now find that, since the industrial revolution, co-operation has adapted itself to the new environment and is mainly concerned with the increase of capital. But, whatever may be the methods of modern co-

The methods of modern co-operation.

¹Read also the facts related by Cunningham in his "Growth of English Industry and Commerce," Part II, p.p. 617-619.

operation, its purpose is to reduce competition or the 'struggle in life.'¹

Trades
unionism.

In the early stages of the industrial revolution, the working classes felt the need of uniting in a special manner so as to organise their labour. This form of co-operation, after about half a century of struggle, has resulted in the system of *trades-unionism*. These classes realised that the capitalist employer had many advantages over the ordinary employee in settling the terms for wages and the conditions of labour. The former could dictate his terms, because he could afford to wait until they were accepted, knowing full well that the latter would give in to him or soon be compelled to starve. Then again, the capitalist knew his fellow employers and the conditions of the labour market, whereas the employee was ignorant of the circumstances which affected him. The result was that labour contracts, supposed to be free, were actually coercive. In such conditions, the labourers of each industry sought to unite for purposes of bargaining with their employers, and, in the event of not getting the market rates for labour, to 'strike' work. The right to unite or to strike

¹ The 'struggle for existence,' which is mainly due to the operation of the Malthusian principle, has so far affected only a minority of men, namely, those who are unable to derive their means of subsistence. But economic history shows that this struggle has been amplified by the combination of science with capital which has introduced a higher standard of life in the human race. It appears that before the industrial revolution this struggle was confined to the acquisition of the necessities for existence, now the struggle has extended to the acquisition of a larger number of wants, that is, to a higher sphere in life. This new order is known as the 'struggle in life.'

in a body was withheld from labourers in England for nearly half a century. British labourers, however, were the first to secure these rights, for it was only during the last quarter of the 19th century that unions and strikes were recognised by law in France, Germany, Austria and Russia. In the United States, these rights do not seem to have been ever withheld. Trades-unions, which constitute a form of co-operation, have removed many of the disadvantages that labour suffered from at the beginning of the last century.¹ They unite the labourers of each industry, keep them informed of conditions in their line of production, support them while they are out on strike, and so enable them generally to obtain from their employers the rates and conditions of labour in the market.

It may now be observed that the system of trades-unions is an evolved form of the system of guilds. We shall see if this is true. An important change brought about by the industrial revolution was the development of village and small town markets into national and even international markets by increased facilities of transport and communication. The mediæval masters and 'journey-men,' who were working together in the same union under the guild system, had now to produce under

A form of co-operation having its germs in the mediæval 'guilds.'

¹ Trades-unionism has the same principle as all forms of modern co-operation which is the suppression of competition. The methods in these forms vary, as we have already seen, but the principle has been the same.

a different organisation for these extended markets, and were thus gradually transformed into capitalist employers and mere wage-earners. Here took place the divorce of labour from capital and commenced the real wage-system. Here also the workmen found the doors of their former guilds closed to them, and so, out of the same sense and need of union, they formed their modern guilds which are these trades-unions. If these unions had not arisen out of the same necessity in industrial organisation and the same instinct of labour protection as the mediæval guilds—virtually the same germs—we could not have said that the former have evolved out of the latter. Germs more similar to these can scarcely be found in economic evolution and they are as apparent as those by which the different stages in the evolution of production are traced. Trades-unionism, as we have just seen, has suppressed to a very large extent the conflict between capital and labour, and has done away with rivalry among labourers themselves.

Co-operative distribution.

England is not only the birth-place of trades-unionism, but of another form of co-operation, that in which competition between the seller and the buyer is lessened and the middleman dispensed with. This system, known as *co-operative distribution*, usually consists in a number of consumers founding a store by capital subscribed among themselves. The store buys goods wholesale and by selling them to members and outsiders at retail prices makes a profit. After paying a small interest

on capital from this profit, the greater portion of it is distributed to the members proportionate to their purchases and not to their shares in the capital of the concern. This system of co-operation commenced in England about the middle of the last century, and, besides developing enormously in its native soil, has spread over various countries in Europe.

In certain lines of industry, co-operation is to be found in the form known as *co-operative production* in which labourers unite and subscribe capital to carry on some manufacture. This system originated in France in 1834 and attained some importance after the Revolution of 1848. But it has not been able to develop very much owing to the fact that labourers are lacking in the education necessary to conduct the various operations of a producer, and, also because they are handicapped generally for want of capital. It appears, however, that these difficulties are being gradually overcome, for recent reports show that co-operative production is spreading on lines which need moderate capital over several countries in Europe. This form of co-operation aims at bringing about a fusion of interests between the employer and the employee so as to reduce self-seeking in either class.

Co-operative
production.

In the competitive age, it is somewhat instructive to observe the many directions in which co-operation has been found to satisfy our economic wants. This great principle of combination has been utilised with no little success by humble

Building
associations.

people to acquire real property. Chiefly among the working classes, unions known as *building associations* have been known to exist in England and the United States, atleast since the beginning and the middle of the last century respectively. In these associations, generally speaking, shares are issued to acquire capital for the union, each share being subscribed for by a member by small instalments. The member who wishes to build has to subscribe in this manner to a series of shares which forms a recognizable portion of the capital of the association. He is then given a loan out of the general fund to build a house which is mortgaged to the union. When he pays up this loan with interest by monthly instalments, he becomes the owner of the house. In this manner, he pays only a little more than the rent of the home he has occupied during the period of payment which is usually ten years. A striking feature of these associations is the absolute security on their loans. This system of co-operation cannot be said to suppress competition between house-owners and tenants or among tenants themselves to any noticeable extent, but it serves an useful purpose by making the acquisition of private property possible by the help of co-operators. The injustice, sometimes complained of in connection with such property, is the right to acquire it by inheritance, and, it may be said that in a small way these associations tend to compensate for this so-called injustice.

So far we have seen that the main purpose of modern co-operation is to reduce the keen struggle brought about by the combination of science with capital. Yet no economic thinker could disregard the benefits of reasonable competition which adapts itself naturally to its surroundings. These benefits are evident from the efficiency slowly created in production and the lowering of prices gradually brought about in consumption. However relative these benefits may be, they have helped atleast to raise the standard of living. But *keen* competition, which may be described as the impatience of men to acquire wealth, seems to violate the law of moderation and tends to degrade human nature, for, when men fail to attain success under such competition, they often resort to unscrupulous methods. We observe, for instance, that wherever competition is becoming keen, as in large towns and cities, there also moral degradation is setting in. In the economic sphere, men are beginning to display this tendency by dishonest advertisement and the adulteration of goods. Now, if moral degradation implies absolute self-satisfaction to the detriment of the community, the greater the rivalry and self-seeking, the greater will be this degradation. We shall see, in course of our enquiry, that this tendency can be obviated by co-operation, the system opposed to competition, and that co-operation, therefore, helps to evolve the moral nature of man.

Keen competition tends to degrade human nature.

Experience teaches us that co-operation is an economic force as great as competition. Yet neither

Co-operative credit—an effective process in the exchange of wealth.

of these two forces can serve the functions of an economic factor.¹ A very simple idea of the force of co-operation is conveyed by the proverb "unity is strength," and it has proved the strength of the poor, because, owing to their individual weakness, they have been able to co-operate in larger numbers than the rich. Possibly, no system of modern co-operation, except trades-unionism, has been so useful in economic life as *co-operative credit* which may be defined as *the combining of the credit of individuals so that all may benefit each and each may benefit all*. Since this form of credit has effectively organized capital in various countries, it may be regarded as an effective process in the exchange of wealth. It appears to possess many of the utilities of individualistic credit but to serve only a few of the functions of capital.² Without generalising further on this form of credit at this stage of our enquiry, we shall proceed to examine its nature along with the functions and utilities it has displayed during the sixty-five years of its existence.

¹ Only a direct agent in the production of wealth can really be considered an economic factor.

² Refer to Macleod's "Theory of Credit," pp. 88-90, and Karl Marx's "Capital," Vol. II, pp. 41-46, along with the views expressed by Professor Gide in his "Principles of Political Economy," pp. 116-129 and pp. 363-367.

CHAPTER II

THE SYSTEM OF RAIFFEISEN

DURING the middle of the last century, there lived in the district of Rhineland in Germany a burgo-master, by the name of Frederick Wilhelm Raiffeisen, who observed that the poverty and indebtedness of the peasants were great, but that if a helping hand were given to them their condition would be improved. Accordingly, as an experimental scheme, he is said to have first commenced a benevolent society among the poorest farmers of his district for the purchase of corn, potato and cattle. This is stated by some German writers to have been his first attempt at co-operation. Raiffeisen then devised a scheme by which these agricultural people could obtain credit. He organized a society with some peasants as members and along with it opened a fund by personally subscribing towards it 6000 marks. He then informed the members that they could obtain loans from the society if they adhered to his principles.

Raiffeisen
—the founder
of this form
of credit.

Raiffeisen declared that his aim was to advance the material as well as the moral condition of the agricultural people and that his institution was to be based on the following principles:—

His principles.

1. Only those who had proved themselves to be trustworthy were to be admitted into the society.

2. Members were to be elected only from a restricted rural area containing about 1000 inhabitants.

3. The liability of the members was to be unlimited.

4. The society to issue no shares and to pay no dividends.

5. All loans to be repaid from the return of the investments made with them.

6. All profits of the society to be carried over to a reserve fund.

7. All work for the society to be done gratuitously by the members.

Honesty a
basis of
credit.

While Raiffeisen was moved by a spirit of humanity, he did not lose sight of the failings of human nature nor of the practical effect that had to be given to his scheme. He accordingly conceived principles which suited his purpose and the conditions in his community. It was only the honest man that could be trusted and deserved help. And, it was not merely a question of his feelings towards the honest poor, but unless his society was composed entirely of honest men, they could not acquire the confidence of the financial public from whom credit had to be gradually obtained. So, honesty had to be their first basis of credit. Such being the case, the society was obliged to be extremely careful in the selection of members, because by electing a member, the

others practically made themselves liable for his defaults in payment. No considerations of sentiment could have entered into their minds when voting for an entry into the society. It was actually a question of safeguarding their pockets. "We know from experience," observes Mr. H. W. Wolff, "that co-operative banks have had to be broken up simply because one or two black sheep had found their way into the fold."¹ Particularly in its infancy such a society is unable to recover from financial losses, hence it cannot be too careful in the selection of members. Moreover, it was not only essential that all members should have the reputation of being honest and reliable, but that they should also realise that the success of the society would depend upon a continuance of their virtues.

The area from which members could join was limited, so that they might conveniently have frequent intercourse and know each other well. Unless this was the case, one member would not take up the responsibility of another. A restricted area thus rendered possible the working of the unlimited liability principle by which members were liable not only for their personal debts but were jointly and severally liable for the debts of the society. As this principle involved heavy responsibility upon the members, it assured a careful management of the society, for none but

Limited
area.

Unlimited
liability.

¹ *Vide* Wolff's "People's Banks," 1896, p. 139.

the most cautious could be entrusted with the control of its affairs. Likewise, it secured the confidence of the public and so obtained the credit necessary for the society. At the same time, the principle of unlimited liability may be said to have existed merely in theory. In practice, no member could be asked to pay towards the debt of another until the debtor himself became insolvent and the funds of the society, meant to cover losses, were depleted.

No shares
nor dividends.

The next principle, that by which the founder did not issue shares nor pay dividends, was yet more practical. A share meant paying down a certain value for its purchase which the poor certainly could not afford to do. They came to borrow and not to pay out money. Owing to this reason, Raiffeisen did not ask even for an entrance fee. His society was intended for those who were in the utmost need and he could not possibly begin by asking them to buy shares, and since there were no shares, dividends could not come in. But apart from there being such a substantial reason for not having shares, Raiffeisen apparently foresaw other difficulties in the way of having them. Supposing that the shares were of a nominal value, some members might have desired to buy more than one share and this could not be refused. The question of their voting powers would then come in. Raiffeisen, however, desired to work on the basis of 'one man one vote.' Shares would, moreover, mean the payment of dividends, and, if divid-

ends were to be paid, it would be to the interest of the shareholders to see that they went up as high as possible. Naturally, they would clamour for a high rate of interest from the borrowers, and, there would arise conflicting interests in the society which would weaken the essential principles of co-operation. Foreseeing these difficulties, Raiffeisen decided to avoid shares and dividends.

As a loan had to be repaid from the return of the investment made with it, a member had to make sure before borrowing that his investment was going to be safe. This acted as a check on imprudent borrowing. And, it was possible to repay a loan from the return of its investment owing to the long term allowed for the loan. If the term were short, the loan could not finish its work being usually applied to agricultural operations which always take some time to be completed. Again, the principle of carrying over all profits to a reserve fund was more beneficial to the members than that of paying out the profits as dividends.

A check on
imprudent
borrowing. ✓

The reserve fund was split up into two sections—the 'ordinary reserve' which met all ordinary contingencies and the 'indivisible reserve' which guaranteed a continuance of the society. In building up these reserves the members were taught to be thrifty and provident. The latter reserve—known as *stiftungsfond* or foundation fund—could, on no account, be distributed among the members. Even if the society were to dissolve, this indivisible

The ordinary
reserve.

The indivi-
sible reserve.

reserve would be deposited in the local government treasury to remain there until a similar society could be formed again. It may here be added that, in accordance with the regulations of the Raiffeisen Central Union, if a society were to dissolve, this reserve would have to be deposited with the Agricultural Central Loan Bank for Germany or with some other institution authorised to act as the trustee of such funds, to be so invested as to increase by interest and to serve at sometime or other as the foundation fund for one or more new societies to be formed in the same locality on the Raiffeisen system. This rule has acted as a deterrent on the members wishing to break up a society for the purpose of acquiring this fund. Raiffeisen expected that in any case this fund would augment and in course of time would serve as the impregnable rock of solvency. He knew full well that there must be some material basis to the moral guarantee furnished by his members before they could fully establish their credit.

Gratuitous
service.

By the last principle, all office-bearers of the society had to render their services gratuitously. Raiffeisen probably argued that as his members would obtain credit at low interest without having capital—the purchasing power of such credit—they must fully pay for it by giving what they possessed, namely, a portion of their time and labour. But whatever was his reason for enforcing unpaid service, he thereby inculcated the spirit of self-sacrifice. In large societies, however, the accountant (called

rechnen) is paid because his work is heavy and continuous, but he has no vote in the recommendation of loans.

There can be little doubt that a society so formed would have an educative influence on its members, and time shows that such has been the result. The first principle teaches them honesty; the third, care in the management of their affairs; the sixth, thrift and providence; and, the seventh, self-sacrifice. They are also taught punctuality by the payment of interest and instalment on due dates. Experience, moreover, teaches us that the establishment of a Raiffeisen society in a village sometimes reforms the character of men inclined to go wrong. When they are needy, efforts are generally made by them to improve their ways, so as to be taken into the society. They are quite as anxious as anybody else to benefit by its credit. They succeed sometimes, after a while, in getting in, when they soon realise that their membership depends upon a continuance of their good behaviour. In this way many a spendthrift has given up his lavish ways, a drunkard his intemperate habits and a litigant his love of contention.

Educative
influence of
societies.

Their moral
effect.

The conception in the mind of Raiffeisen being opposed to the notions of individualism, he had to so design his institution that in its working there should be no facilities for self-seeking, and power could not be focussed in the individual. So, Raiffeisen gave to his society a constitution

Constitution of
societies.

composed of three distinct organs—a 'general assembly,' a 'committee of management' and a 'council of supervision.' Every authority commences with the 'general assembly' which is composed of the meeting of all the members of a society. This assembly elects the 'committee of management,' consisting of five members, of whom one is appointed the president, another the secretary and a third the accountant or cashier. The 'general assembly' also elects the 'council of supervision,' now consisting of three, six or nine members depending upon the extent of a society. In this council, one is appointed the chairman, another his deputy and the remainder his assessors. The council work in the country and report to the committee the condition of intending borrowers. If satisfied on this score, they are also to advise the committee to what extent credit may be allowed in each case. They have, besides, to keep an eye on the borrowers and to report if there is any misuse of loans, as also to watch the financial condition of sureties. Further, they have to inspect the accounts of the society monthly.

Their democratic basis.

Briefly speaking, the council act as the advisory body and the committee as the executive authority, but the 'general assembly' is the source of all power. Although Raiffeisen's scheme was financial in purpose, it could not endure unless governed on a democratic basis. Hence no difference was made in the beginning between the rich and the poor, but in subsequent societies, as it appeared that the rich

bore the brunt of the liability, they have been generally elected officers of the administration.

Thus, upon principles and a constitution which gave to the poor a priceless heritage, Raiffeisen founded his system of credit. His first society, known as *Darlehnskasse* or Loan-Bank, was formed in the village of Flammersfeld in the year 1849. The second society was formed at Heddesdorf in 1854, the third in 1862 and the fourth in 1868. While these societies grew in size, there was an improvement in the condition of the members. This gradually led to accumulation and deposit of their savings with the societies which paid a small interest on these amounts. The societies themselves finally obtained loans from banks in the country, the limit of these loans being always fixed by the members.

The growth
of the system.

There seems to be some difference of opinion as to the period when regular rules were framed in these societies. Sir Frederick Nicholson is of opinion that "from 1864 when the society was formed at Heddesdorf regular rules which in the main govern these societies were formulated." As a matter of record, the society at Heddesdorf seems to have been formed much earlier, if we were to go by a number of reports on this point. However, this question does not seem very material and we may accept Nicholson's view as to the time which is quite probable, and take it that regular rules came into existence in Raiffeisen societies

Rules of
societies.

about the year 1864. These rules in their main points appear to have been as follows¹ :—

1. A loan could be granted only to a member who had to first satisfy the society that he was in a position to repay the loan.

2. A loan was given only against a bond or promissory note signed by the borrower along with two personal sureties obtained from among the members.

In later years certain societies have taken over mortgages of real property, belonging to their members, to prevent such property from passing into the hands of usurers.

3. The term of a loan was as long as necessary to make sure of its repayment—usually from 1 to 10 years—which could be made by instalments.

4. The object of every loan had to be declared and a loan was to be issued generally for agricultural purposes.

As the members of these village banks usually consisted of agricultural people, among whom were included a few traders and artisans living within the prescribed area, loans were issued to suit the greatest requirements of members.

5. If a loan was not utilised in the purpose for which it was taken, it could be forthwith recalled.

¹ *Vide* Model Articles of the Raiffeisen Credit Union in Nicholson's "Report on Land and Agricultural Banks in the Madras Presidency," Vol. II, pp. 102—107.

6. Interest and instalment on loans were paid punctually on due dates.

7. If the financial condition of sureties deteriorated before the redemption of loans, such sureties were to be replaced.

8. Each member had only one vote.

9. Members had the power to expel any member whom they had ceased to trust.

10. All members of the society assembled once a year at a general meeting to elect members for a 'council of supervision' and for a 'committee of management,' to inspect the accounts of the past year, to settle the maximum amount to be borrowed by the society and to be lent out to members, as well as to fix the rate of interest on such loans for the ensuing year, and to discuss all other important matters.

11. The committee of management met at least once a week to transact the regular business of the society.

It has already been observed that as the principles were originally conceived, there were no shares nor dividends. In 1889, however, the Legislature in Germany made it compulsory on all banks to have shares and dividends. Raiffeisen societies met the law by issuing shares of the smallest possible value—between 10 and 15 marks—such shares to be paid in by instalments. As regards dividends, the societies kept to themselves only 6 pfen-

The Law
compels a
change.

nings per member annually (as subscription for the yearly report of each society) and voted away the balance to the two reserve funds. The principles of the founder, in other respects, have been strictly observed by Raiffeisen societies to the present day. His rules have been modified sometimes by some of his societies to suit their particular conditions, but, so far, his original principles, other than the one just mentioned, have been closely followed.

The simplicity of business in these societies.

The regular business of a society, which is carried on by the committee of management, consists merely of giving out loans and taking them back from members. A Raiffeisen society is purely a loan bank in which general banking—such as transactions in stocks and shares, discounting of bills and drafts—that sometimes involves speculation is not permitted. This loan business merely has been kept up in these societies up to the present day, and it is said that they have seldom lost a penny; because, apart from their perfect constitution and control, simplicity in business implies safety.

Their utility tested by scarcity.

We have just observed that only four societies were formed within nineteen years, but from 1868 their growth was more vigorous, so that by 1885 nearly 250 societies were established all over Germany. In 1893, however, there was drought and scarcity in the country when these societies afforded great relief to the peasants. Their timely aid attracted the attention of the agricultural people of the country and Raiffeisen societies were formed in

various places. Within three years of the scarcity there were about two thousand societies all over Germany.¹

The confidence which the public had in the security of these societies at a comparatively early stage of their existence is proved by the fact that "in those two critical epochs of crucial testing of German credit," as related by Mr. H. W. Wolff, "the years of the two great wars, 1866 and 1870—when deposits were withdrawn wholesale from other banks and when even diplomatists like Sir R. Morier found it difficult (so he himself reports) to supply themselves with money—deposits were actually *pressed* upon the Raiffeisen Banks, for safe keeping, though it should be without any interest at all."²

The confidence of the public in these societies.

¹ See in the Appendix the present position of these societies in Germany.

² *Vide* Wolff's "People's Banks," 1910, p. 139.

CHAPTER III

THE SYSTEM OF SCHULZE-DELITSCH

Schulze—
the joint-
founder of
this credit.

ABOUT the time that Raiffeisen was working out his scheme in the Rhineland, Franz Hermann Schulze-Delitsch, a district judge, was busy with a similar plan in his native state of Saxony—quite independent of Raiffeisen's scheme. He also was stirred by the troubles of the poor, and felt that with a little assistance they could get out of the clutches of the Jewish usurer. Accordingly, he conceived the plan of obtaining loans for them upon joint security, and founded his first credit society known as *Vorschussverein* or Advance-Union in 1850 at Delitsch—his native town by which he is generally designated. Although Raiffeisen had forestalled him in this respect by a very short period, it must be admitted that the foundations of co-operative credit were laid by both acting independently, but, on a sounder basis by Raiffeisen. Outside his own country, Schulze is regarded as a socialistic thinker who advocated self-help and opposed state-socialism; in Germany itself he is known as a practical worker and the joint-founder of this form of credit.

His earliest
difficulties
with Lassalle
and the State.

The opposition which Schulze had to encounter before he could establish his system of credit forms an interesting page in economic history. Before forming his credit union, it appears that Schulze

had organised a friendly society and two or three associations for procuring raw material. He then directed his attention to his advance union, being convinced that by self-help and co-operation the labouring classes would be able to improve their lot. At the same time, Ferdinand Lassalle, the economist, was propagating his theory on the price of labour, known as the *iron law of wages*.¹ He declared that this price was determined by the amount absolutely necessary to maintain the working man, which implied that wages could not rise higher than the bare cost of maintaining him. This is the substance of his theory put in a very concise form. Although his theory really emanated from the classical economists, it happened to be un-

Lassalle urges his 'iron law of wages' and throws the people on the help of the State.

¹ This law lays down a particular cause by which wages are determined, although wages depend on many causes operating in multifarious ways. The standard in which various kinds of labourers—coal-heavers, porters, blacksmiths, miners, carpenters, weavers and others—can subsist in a particular climate is the same, yet we find that their wages are *different*, for the simple reason that, other causes such as food, clothing, habitation and the state of production being the same, wages depend on the conditions of training and occupation. Again, if, according to this law, wages are determined merely by the standard of maintenance, how is it that, when wages rise and fall by some unknown causes, we do not *first* observe a parallel change in this standard? In fact, wages are not determined by this standard to any such extent as wages determine this standard, for few can increase their wages by improving their living. So the real position is that wages and this standard are related as cause and effect, but the standard occasionally seems to have a reactionary effect on wages owing to some psychological reason, possibly a confusion in the mind between cause and effect, for the argument is *sometimes* urged that "I have a family to support and so I cannot work on such poor wages." Occasionally, also, the reactionary effect is due to a rise in the standard of maintenance, brought about by the growth of a man's family, which compels him to improve his efficiency so as to increase his income. In such cases only, wages and this standard *interact* just as many other economic forces.

He rebukes
the people.

fortunately as rigid and pre-defined as the *wages fund theory*.² Yet he rebuked the labouring classes for believing in their wage system and urged his own, laying it down at the same time that they could not hope to improve their lot in the economic order then existing, except by asking for the help of the State. "Do you not know," declared Lassalle before artisans and workmen, "that hundreds of the *bourgeoisie* would have already a hundred times over had to shut up shop, if they had not received similar accommodation through the State banks?" Schulze, on the other hand, opposed Lassalle on the ground that such

² This theory was apparently having its influence in Germany when Schulze commenced work. As stated by Mill, the *wages fund theory* should be taken to express in a very general way the relationship between wage-earners and the wages-fund with regard to the price of labour—wages-fund implying the amount of circulating capital spent in wages. But it is not sufficient for us to know that ordinarily the average rate of wages may be obtained by dividing the amount of the wages-fund by the number of wage-earners. We wish to know precisely the reasons why wages rise and fall. We must, therefore, examine in particular countries over a considerable period conditions affecting wages, such as the demand and supply of labour, the productivity of labour, the cost of raw products, the market-price of finished products, the interest on industrial and non-industrial capital and the average rate of rent. The difficulty of investigation, of course, lies in the fact that some of these conditions not only form a catena of causes, but also interact and that, consequently, they cannot be taken as rigid standards. Still, much of their complexity could be removed by analysing cause and effect by the standard of time, and by first determining some other fixed standard, if there be any, connecting labour or rent with place. We should then be able to get certain laws which determine wages under particular conditions. But to formulate one theory to suit all the conditions under which various rates of wages arise is obviously impossible. Indeed, the greatest defect of some of the older economic doctrines was the attempt to lay down a particular principle to explain the most complex portions of our economic machinery.

help, rendered to particular groups of workers, would not reduce competition which was an essential cause in low wages, and that the State could not expect to acquire the monopoly of industry which alone could lessen competition. Accordingly, Schulze sought with greater wisdom than that of Lassalle to reduce competition by co-operation and to promote self-help as against reliance on the State, having before his mind the recent failure of state-aid with regard to production in France. It is said that Lassalle thereupon induced Bismarck to thwart the endeavours of Schulze and to support his own scheme of state-aided production.

The opposite views of Schulze who advocates co-operation and self-help.

The practical nature of the aims of Schulze can best be gathered from the words he used to draw up his programme in the early years of his work. "At the outset," he said, "the association will have to be carried on with a certain reticence, because the destruction of the old trade associations is not yet sufficiently complete, the building ground is not yet so far cleared of the debris of the old system as to enable us to proceed with complete freedom with the work of construction. Besides, we have to fight with the tendency to separatism peculiar to the German people, to whom the sacrifice of isolation appears to present itself as a sacrifice of independence, whereas in truth independence is only to be secured by the hearty co-operation of the once isolated units. Therefore, it seems best to begin with purely economic associa-

The details of his scheme.

Co-operation to be attained by gradual stages.

tions and trade associations of a very limited character, which assure to members the conditions of a desirable activity of trade without as yet associating them for the carrying on of the trade itself, which will on the contrary be carried on by each individual as formerly for his own exclusive advantage. Only when the extraordinary power of the principle of association has been thus brought before their eyes, and has made them sensible to and ripe for the higher steps in its application, only then should one gradually go on to build up with their help great co-operative undertakings, still guarding against overhasty and inconsiderate attempts which have generally failed. Failure brings in its train the evil result that it spoils the ground for a long time for seed of the same kind." These words not only reflect to some extent the nature of industrial society in Germany in the days of Schulze, but they carry us into the recesses of his mind with regard to his own project. It is obvious that the mediæval system of guilds had not altogether died out in the country, for the founder remarks that "the destruction of the old trade associations is not yet sufficiently complete," and he had to help on the industrial classes to a difficult reform, particularly as "the sacrifice of isolation" in certain conditions of production would appear to them as "a sacrifice of independence." His scheme did not aim at the development of organisation from the workshop to the factory system, nor did he think of introducing co-operative

production in domestic industry; but his purpose was to bring about conditions which he believed were essential to the activity of trade and industry, that is, to substitute co-operative for individualistic principles in the organisation of capital and in some other conditions necessary in production. So, it was wise for him to proceed by gradual stages in the work of initiating these principles of co-operation. At the same time his scheme was to be put into practice, and so, its details had to be made thoroughly workable.

Schulze commenced with the principles of thrift and self-help as the most practical beginning for his system of credit. All members had to join his union on those principles, and so, unlike the plan of Raiffeisen, he devised shares of considerable value to purchase which it was necessary for humble people to begin with the practice of thrift so as to help themselves. He also adopted the principle of unlimited liability seeing that it was the only basis upon which similar associations had been formed in Germany, and that it would be easily intelligible to the people. Unlimited liability cannot, however, be accepted by people unless they know that those with whom they will be associated are reliable. So, before entry into the society, the character of members, with special regard to their habits in monetary transactions, was enquired into. Yet, no such standard of conduct as Raiffeisen demanded was required of the members, because Schulze apparently believed that, as the source of credit, a material security was more important than a moral one.

His principles.

How these principles are applied in his system.

Such being his principles, it was not very essential that the area of his societies should be restricted, so as to facilitate among members an intimate knowledge of one another's behaviour. In fact, Schulze seemed to have an object in view—namely, that of an extensive business in each society so as to be able to keep up a salaried staff—which militated against the principle of prescribed area. In consequence, his societies are generally established in towns and sometimes in contiguous villages with a considerable sphere for banking operations. A member upon entry has to pay an entrance fee and to buy a share the value of which is large, amounting to 600 marks in certain societies, but this sum may be paid in by instalments. Before lending, the society considers carefully the financial position of the member and the security he is prepared to offer. Generally the society advances money against bonds and bills with the personal surety of two members, but mortgages are sometimes accepted. The usual rate of interest charged on loans ranges between 7 and 8 per cent. The term of a loan is three months, which is the usual period for term deposits in Germany, but this term is subject to renewal for another period of three months. No stipulation is made as to the employment of a loan nor of the means by which it should be repaid, but it is expected that all loans will be used productively. Generally, a tenth part of the society's yearly profits is carried over to a reserve fund, which is kept for the purpose of covering business losses, and the

balance paid out in dividends 'in proportion to the paid-up share capital of each member.' All office-bearers of the society are paid and even the members of the board of supervision are entitled to a fee for attendance.

In constitution, the societies founded by Schulze are somewhat similar to those of Raiffeisen. The general body of members, which is the source of all power, assembles once a year to elect a 'committee of management' consisting of three members only—a director, a cashier and a comptroller—who manage the business of the society. At this 'general assembly' no proxies are admitted and each member has only one vote.¹ At this assembly is also elected a 'board of supervision' which controls in some matters the actions of the committee of management, deals with all applications for loans and audits the accounts. The general assembly has the power to dispose of the net profits of its society as it thinks proper, but it does so usually in the manner we have already observed. As stated in the model articles of association of this system, 'members of the committee of management and of the board of

The constitution of his unions.

¹ The principle of 'one man, one vote,' adopted by the two founders of co-operative credit, was meant chiefly to safeguard the *interests* of members *equally*, since their *liabilities* were unlimited and practically would be divided *equally* out of a general fund in case of ultimate need. (See P. 20). Dr. T. N. Carver observes that "some of the extreme advocates of co-operation seem to think that there is some magic about the 'one man, one vote' principle. They are unable to see that all that is necessary is that the management of the society shall always be controlled in the interests, not of the receiver of dividends, but of the receiver of the ordinary farmer's income." See *American Economic Review* (Supplement), March, 1914, p. 103.

supervision cannot be accepted as sureties during their term of office,' and, 'members of the committee of management are excluded from all grant of credit during their term of office.'¹

How the
unions in-
creased but
departed
from the
founder's
principles.

In his original scheme, Schulze led people into a course of compulsory saving before they could buy his expensive shares, so as to encourage thrift and self-help. Later on, to attract share-holders, high dividends were devised by some of his societies, and this could only be done by raising the rate of interest on loans. As borrowers had been accustomed to usury, they paid interest as high as 12 and 13 per cent. for some time, while the share-holders received dividends year after year which no co-operative society should countenance. Members of these societies then ceased to care for co-operative principles and became dividend-hunters. Anyway, the societies of Schulze increased everywhere in capital and grew rapidly in number, until it dawned on the minds of some of these followers that they were departing somewhat from the original purpose of the founder. Consequently, in recent years they have reduced their rates of interest, and their dividends have come down to 6 and 7 per cent. Sufficient capital has now been attracted by almost all the societies of this system, so they are also reducing practically the value of their shares. They cannot actually reduce their face-value after so many years, but in new societies the amount called for on

¹ *Vide* Articles 53 and 55 of the Model Articles of the Schulze Federation given in the Appendix.

each share has been limited to one-half, one-third or one-fourth of the nominal value, depending upon the approximate need for capital in each society.

A change in the financial method has also been effected which appears from the model articles. "The society grants loans to its members for fixed periods, discounts bills for them and opens current accounts with them with or without extension of credit. It transacts business in stocks and shares for the members on commission."¹ These societies have also cash-credit accounts with their members which are renewed or closed every six months.² The securities now approved for loans have become more varied, bills of exchange, bonds and stocks being accepted regularly in almost every society. In this connection, the model articles state that "security for credit granted may be furnished by the provision of one or more sureties, by the pledging of sound claims, by the pledging of good state or other securities enjoying a quotation on a German Exchange."³

Their financial transactions.

Schulze adopted the scheme of unlimited liability because he found it the most familiar basis of rural banking in Germany. The Prussian Land

Prussian Land Banks contain the germ of co-operative credit.

¹ *Vide* Art. 50 of the Model Articles of the Schulze Federation given in the Appendix.

² The system of *cash-credit* originated in Scotland as shown by Macleod in his "Theory of Credit." According to this system, a bank opens an account with a person, who furnishes at least two personal sureties, and allows him to draw out money as he may require up to a limited amount, paying interest, of course, on the sums actually borrowed and for the time that they are taken.

³ *Vide* Art. 52 in the Model Articles of the Schulze Federation given in the Appendix.

Banks, originated under the auspices of Frederick the Great, had adopted this principle of joint and several responsibility. After the Seven Years' War, the landed proprietors in Prussia were involved in debt, and to relieve their indebtedness these institutions were formed in 1769 with a subvention from the state. A bank was established in each province the landowners of which were compelled to join it as members. They obtained loans from these banks on their joint and several liability at very low rates of interest by the mortgage of land. With some changes these banks still survive and have served as models for similar institutions in other European countries. In the days of Schulze the principle of unlimited liability had, consequently, become an accepted tradition in Germany. It naturally suggested to his mind the greatest hope of success and so he adopted it. Having these facts in view, it appears that the germ of co-operative credit existed in Germany when Raiffeisen and Schulze introduced their schemes among the poorer people in the country.

Defects of
the Schulze
system.

There can be little doubt that Schulze considered the immediate prospects of his scheme, which were financial, rather than the permanent benefits of co-operation, which being economic must be social to a larger extent than he could have known. He compelled people to pay down a large sum in the purchase of shares, the result of which was that the poorest were kept out of his societies. This failed to make his scheme thoroughly social.

Then, in his system, there is no special stipulation as to the disposal of the net profits of a society which virtually gives its members the choice of appropriating them. Again, Schulze had no notion of developing the spirit of self-sacrifice in his members. Nay, he was of opinion that every labourer was worthy of his hire, and so he paid all who gave their time and labour. Such principles naturally led to an influx into his societies of profit-seeking men who were soon led by the greed of gain to depart from the true principles of co-operation. Many of his societies have, indeed, been converted into joint-stock concerns, but their adoption of the principle of limited liability is not the only indication of their departure from co-operative principles. So long as the security for a loan is good, these societies do not seem to have much further concern with their borrowers. Being so defective in co-operative character, it will be readily seen that a Schulze society does not exercise much moral influence on its members.

Owing to these societies being usually located in towns and to the short term for which loans are granted by them, artisans, petty employers of labour and shop-keepers, who can turn over their capital quickly, form the bulk of the clients of Schulze. Although agricultural people are also to be found among the members of his societies, they cannot be deriving much benefit from his short loans, as capital sunk in agriculture takes a longer time to return than capital invested in

The clients
of Schulze.

trade and manufacture. These institutions, however, do an extensive banking business and the average number of members in each society has been over 600 in recent years.

The different means adopted by the founders.

An essential difference in the methods adopted by the two founders may here be observed. Schulze depended on self-help as a means to attain the goal at which he aimed, and so he compelled people to save up money before they could come into his union. Raiffeisen on the other hand evidently believed that such a course would keep out of his institution the poorest people whom he wished to help, and so he adopted a different method which included self-sacrifice as an essential principle. It is remarkable how such different means were devised to attain the same end, a circumstance which reveals the conceptions of co-operative credit in the minds of the two founders. In spite of the fact that the system of Schulze is based on the theory of unlimited liability, the principle of self-help apparently developed in some of his societies a leaning towards individualism.

The want of self-sacrifice makes co-operative distribution a defective system.

If we now turn for a while to the history of co-operative distribution, we shall find that this form of co-operation is also wanting in the fundamental principle which Raiffeisen inculcated, namely, the subordination of the personal to the fraternal interest. It is perhaps true that co-operators in this system display this principle to some extent at the commencement of their venture when they are

helpless individually, but, when they improve their position, we find that they also begin to get selfish and to exclude new-comers from their special benefits. Thus, almost all co-operative stores gradually employ workmen on the wage-system, which goes to show that when the principle of self-sacrifice does not exist among co-operators, they tend to revert to the ideals of individualism.¹

These facts lead us to an inference regarding human nature. In poverty all men seek co-operation out of the instinct of self-preservation, but when some means are accumulated they desire to have more, also out of a selfish motive. What we then seem to forget is that self-sacrifice has proved the best means to the selfish end. If this were remembered, co-operation would not fail even when it has attained its immediate purpose. Just as in the business world, producers have to put out

In poverty
all men seek
co-operation.

¹ "The discussions at recent Co-operative Congresses, attest," remarks Mr. L. L. Price, "too plainly to be mistaken the ominous fact that co-operation has, as yet, been arrested at what the Christian Socialists would consider its initial and subordinate stage, and that it has not proceeded to the higher and fuller development, which they so eagerly contemplated. There is something approaching to pathos in the unwearied persistence with which Mr. Holyoake, for example, in his *Co-operative Movement To-day*, returns again and again to this attractive but disappointing theme. * * * And, Mrs. Webb's imputation of an aristocratic taint to the principle of sharing in profits seems here to be pertinent. The tendency of a small body of workmen admitted to such privileges to exclude others from their participation has more than once been illustrated in the history of the co-operative movement; and the wages system, expelled by the front door, has tried to effect its entrance again by the back, and, in doing so, has caused a certain amount of irritation, whether it has succeeded or failed in the attempt." *Vide* Price's "Economic Science and Practice," 1896, pp. 71, 87, and 88.

capital to create capital, so also in most worldly affairs men have to give up selfishness to attain a selfish end. This principle of human action is similar to the economic law that everything which has value must be purchased by something valuable, no matter if this purchase involves a partial sacrifice of that which is sought after.¹ It is evident, therefore, that, in the edifice of co-operation, the soundest stone which could be laid was the spirit of self-sacrifice inculcated by Raiffeisen.

¹ This law applies to all which is known as economic goods to the exclusion of the gifts of nature.

CHAPTER IV

THE SYSTEM OF LUZZATTI

PERHAPS in no civilised country was usury practised with so much impunity as in the north of Italy until the middle of the last century. Signor Levi, the Italian economist, speaks of interest as high as 700 per cent. per annum being extorted from Italian peasants, and, it is believed that in default of payment of such interest cattle purchased with money so borrowed were sometimes forfeited.¹ The lower industrial classes were extremely poor and exploited by money-lenders. The ways of the Jew as represented by Shylock in *The Merchant of Venice* are too well-known to need any showing, and this beautiful drama depicts scenes which were probably enacted in various parts of Italy. "The country which had taught all nations banking," writes Mr. H. W. Wolff, "possessed little commerce, the country in which *The Georgics* were written owned an agriculture little advanced upon that which Virgil had described."

Italy exploited by usurers in the past.

Observing the relief which the institutions of Raiffeisen and Schulze-Delitsch brought to the people of Germany during the sixth decade of the last century, Luigi Luzzatti, then professor of economics in a technical institute at Milan, was

Luzzatti forms the 'Banca Popolare.'

¹ Vide Nicholson's Report on Land and Agricultural Banks in the Madras Presidency, Vol. I, p. 43.

roused to action for the indebted poor in his country. After some experiments had been made with co-operative effort in friendly societies at Lodi, Cremona and other places during the years 1864 and 1865, Luzzatti founded a loan-bank at Milan in 1866 and called it the *Banca Popolare* or People's Bank. This was the first co-operative credit association in Italy, and it commenced with a capital of only 700 *lire*, a sum equivalent to twenty-eight pounds sterling.¹ It was founded upon a system which seemed to take a course midway between those of the two German originators, although Luzzatti is believed to have been in those days a follower of Schulze rather than of Raiffeisen. In describing his own bank, Luzzatti says—"We have not copied an institution but produced a new type, and impressing upon it the stamp of Italian originality we have created the *Banche Popolari*."

Its essential features.

While it is evident that Luzzatti was influenced by the principles of the German founders, he knew that the circumstances under which he could establish this credit in his country were somewhat different. So, after careful selection and adaptation to environment, he has evolved in Italy a new type of co-operative credit, of which he is the immediate parent. The essential features of his institution may be described as follows:—

1. Only honest and reliable men are taken in as members.

¹ *Vide* Wolff's "People's Banks," 1910, p. 296.

2. Each member takes a share the value of which rarely exceeds 50 *lire*, and which is payable by 10 monthly instalments.

3. A member has only one vote although he can have more than one share.

4. The liability of the members is limited, that is, they are responsible only to the extent of their shares.

5. The members render their service to the bank gratuitously, but three office-bearers—the president, the accountant and the cashier—are paid, because their work is heavy and continuous.

Beginning with the method of Schulze rather than of Raiffeisen, Luzzatti formulated a scheme to 'capitalise honesty,' to use his own phrase, but he believed that this purpose could be attained by a special process in his particular surroundings. Not merely should his members have the reputation of being honest and reliable, but as their liability, owing to causes we shall see presently, could not be unlimited, he deemed it essential for them to begin with some material guarantee. So he decided to have shares which would form this guarantee. It must be realised that in co-operative credit with limited liability, a material security is indispensable. Even Raiffeisen, who adopted the principle of unlimited liability and placed so much faith in moral security, subscribed an initial fund of 6000 marks towards his society. We must bear in mind that moral principles merely cannot

The principles of the founders modified by Luzzatti.

Material security retained as an essential basis of credit.

suffice in the creation of credit. They may be sufficient to cause confidence in the ethical and juridical spheres, but not in the economic domain. Some basis of capital, some abstinence of past production, however little it may be, must also be there, if the credit which these principles will germinate must aid in future production. That capital must help to create capital is as much of a law in the present stage of economic evolution as that life must help to create life, and credit is merely the process by which such capital is obtained for a time.¹ So, all systems of co-operative credit begin with some substantial security, and, further inculcate the practice of thrift, that is, of some saving of past production, and Schulze regarded this as the most essential principle. Luzzatti did not enforce this principle to the extent that Schulze did, nor carried it into effect in the way that Raiffeisen did, but he suited his own environment. Working among poor and timid people, hitherto exploited by usurers, he devised small shares payable by instalments, so that such shares may come within the reach of all. But whoever wished to

¹ If we were in the primitive ages when nature predominated as an economic factor, or in the middle ages when labour exerted such an influence, we could not have confirmed this law regarding capital which is itself derived from nature and labour. But it is obvious that the modern organisation of industry has evolved out of its primitive cells to its present advanced type, in which the agents that must be utilised in production cannot be obtained in their present form and order except by capital. The main reason for this appears to be that capital is the only factor, which, in its special form of money, can serve as the medium of exchange. So, it is capital which decides, more than any other factor, whether production can be taken up or not. We shall see gradually the position of credit in this organisation.

take more than one share could do so. His liability would, of course, increase in proportion to his shares, still, it would not be unlimited as in the societies of the German founders. Another essential principle of Luzzatti was self-sacrifice inculcated by the practice of gratuitous service. He probably believed as an economist that this service among members, being occasional, would be amply repaid by the easy credit that they would obtain. But in the larger banks, where the work is heavy and regular, the office-bearers are paid, partly by salary and partly by a very small share of the profits.

The People's Bank is thoroughly democratic in constitution which is essential not merely to ensure equal rights, but to make the organisation a social one, and no system can be really economic unless it is social, that is, unless it utilises all the economy possible not only in the individual but in the society. All members assemble once a year for elections, at which no voting by proxy is allowed. After the report and balance-sheet of the preceding year are dealt with, this assembly elects from its number a large body of members—practically all members who can spare time to devote to the work of the society—which constitutes the council of management called the *consiglio*. This *consiglio* forms the administrative authority of the bank and manages its affairs. The general assembly also elects a loan committee known as the *comitato di sconto* which deals with and passes orders on all applications for loans. This assembly further elects at its annual

Its democratic constitution.

The 'consiglio.'

The 'comitato.'

The 'pro-
biviri.' meeting a board of appeal consisting of three mem-
bers called the *probiviri* who decide all appeals
from members against the decision of any officer of
the bank.

Duties of
the 'consig-
lio.' The duties of the *consiglio* consist of giving
loans to members as advised by the *comitato*, issuing
loans on security of bonds and public stocks, keep-
ing current accounts and savings deposits for mem-
bers and holding in safe custody their valuable
articles. The loan committee prepares a register
called the *castellato* which is a record of the finan-
cial position of each member and of the amount
of credit that can be given to him. This book is
revised every three months and affords a ready
reference to the committee in its work.

The 'sin-
daci.' The *consiglio* in turn elects from its own number
three to five supervisors known as the *sindaci* who
supervise the daily business of the bank. Each
supervisor serves by rotation for one week at a
time, and, having thus fulfilled his duties for a year,
is allowed to retire. We now see from the organisa-
tion of this bank that Luzzatti aimed not only at
democratic constitution, but also at sound manage-
ment by a careful division of labour, knowing that
such administration would go to establish public
confidence.

While the bank at Milan attracted members by
virtue of its union of honesty and sound manage-
ment together with its system of full self-govern-
ment, the difficulty lay in finding sufficient capital

to lend to the members. The bank had started with a capital of only £28 and the subscription obtained from shares was small, but more capital could be found by building up a credit for the bank itself in the financial market. How was this credit to be built and established? Luzzatti knew that in Milan, bills of exchange and accommodation accepted by a bank were negotiable in other banks. These bills were drawn for short periods—usually 90 days—and, following this practice, his bank had begun to issue loans to its members for the term of three months. He, thereupon, decided to utilise similar bills in forming the basis of his credit. The borrowers could draw these bills on his bank which would accept them whenever loans could be granted. These accepted bills or ‘acceptances’ could then be discounted by other banks.

Luzzatti forms his basis of credit on ‘acceptances.’

Yet, before passing on the acceptances to other banks, Luzzatti had to increase their confidence in the *Bancca* and to make it a recognised institution in the market. Here lay the greatest difficulty, as it generally takes time for a bank to acquire the confidence of the public. But circumstances favoured the *Banca* in a singular manner. “The late Felice Mangili, who was secretary of the Bank,” says Mr. H. W. Wolff, “relates the incident in his *Memoria* published in 1881. Barely had the Bank of Milan opened the doors of its modest office, when Italy was plunged into war. In the then state of affairs, war necessarily meant a financial crisis, and the Italian Government, by way of

The main difficulty of Luzzatti.

aggravating such, had anticipated the opening of hostilities by enacting forced currency for the notes issued by the National Bank. There was general consternation. Gold was at a high premium, paper money was correspondingly depreciated. * * * The *Banca Popolare* promptly came to the rescue, offering to issue *buoni di cassa*—bonds or bills, that is, not notes—for small amounts, five, three, two *lire*, against security. The public jumped at the opportune suggestion. The Municipal Council readily approved it, and the printing press was at once set to work with admirable effect. A serious crisis had been averted—and the reputation of the *Banca Popolare* was made. Within a year the number of its members rose from 400 to 1,153; its capital grew to 217,000 *lire*, its reserve to 7,902 *lire*.¹

The bulk of
his business.

When credit was established, the bulk of the bank's business consisted in granting loans to members against acceptances, in cash-credit transactions with members as well as the public, in discounting bills of exchange, labour bills, warrants of payment, bills for goods, treasury bills and municipal bonds. It was also found necessary after a time to open a savings bank department in this institution for the convenience of its members. As the public in Italy began to realise the benefits of the *Banca* at Milan, they wanted similar institutions in other towns. By 1870, nearly 50 such banks with a capital of about 17 million *lire* were

¹ Vide "People's Banks" by Wolff, 1910, pp. 296-297.

established in various parts of the country. A part of the business of these banks is to accept valuable articles and securities from members for safe-custody. Mortgages of real property are also accepted by some of these banks only when it becomes necessary to prevent such property, belonging to a member, from passing into the hands of an usurer.

The main reason why Luzzatti did not adopt the principle of unlimited liability was that the Italian law at the time did not recognise societies with such liability which was probably unknown in the country. But even if the law had allowed such a principle, it is doubtful if his followers at Milan would have adopted it, for it is well-known that the citizens of a town cannot know and trust one another so well as the people of a village.¹ Did the law not come in his way, Luzzatti might have been able to introduce such liability among agricultural people in Italy. Two Italian writers, Ettore Levi and Giustino Fortunato, however, assure us that their countrymen would not have joined an institution involving such a risk.² They had recently been exploited by usurers and probably had little trust in those who offered to lend them money. This might have been one of the causes operating against the possibility of introducing the heavier risk. Anyway, we find that there were some difficulties in the way of Luzzatti

Why Luzzatti adopted limited liability.

¹ We shall see in Chapter VIII the reason why this condition arises.

² *Ide* "People's Banks" by Wolff, 1896, p. 199.

adopting unlimited liability, and that, although he might have known that in this joint responsibility lay the essence of co-operation, he had no choice in the matter, and so he adopted the principle of limited liability but accepted only honest and reliable men as members.

The working of his banks.

Option of area.

Urban situation and limited liability.

Short loans.

We shall now see how these banks have worked in recent years. Unlike the societies of Raiffeisen which have a limited sphere for membership, these banks determine their own district according to the area each is of opinion it can operate. But in all cases, the area is thoroughly represented in the administration. To be eligible for a loan a member has to furnish material guarantees for its repayment. He must pay up any debt which he might have incurred outside and pay into the bank at least half the amount of his share. These banks are established only in towns and are based on the limited liability principle. The result is that merely by election into a bank, because they have the reputation of honesty and reliability, members cannot know one another so well nor exercise such check over one another's behaviour as in the rural societies of Raiffeisen. Consequently, before issuing their loans, these banks adopt the afore-said precautions and are also guided by the *castellato* which is revised every three months. Herein lies a difference between the methods of security in the Raiffeisen and the Luzzatti systems. The term of a loan is three months, but sometimes a renewal for another three months is granted. As the

members of these banks are usually of the shop-keeper and artisan classes, this period is sufficient for them to obtain full service of the loan. The banks prefer an extensive business in short loans—where the capital keeps mobile, that is, moving and available—to a limited business in long loans where the capital is locked up. These short loans, being in the form of acceptances, as we have already seen, are passed on to other banks and easily discounted by them. Luzzatti's banks prefer these short loans, because money lent on personal security is safe when the circumstances involving its repayment are short, and because, for this reason, they are easily convertible into money at the discounting banks. This deskful of negotiable bills has been called by Signor Ettore Levi 'the well-mobilised portfolio' of People's Banks. Interest on loans is kept low, although it is generally higher than the rate prevalent in Raiffeisen societies. In these banks, a portion of the profits is utilised to increase the reserve fund, a portion to decrease the rate of interest on loans taken by members, and a portion is distributed to the members as dividends. But dividend-hunting is not encouraged.

Member-ship usually non-agricultural.

The circulation of money in personal credit.

Interest and profits.

A very social and non-individualistic feature of these banks is that they issue a 'loan of honour' to people who are very poor, but have the reputation of being honest and industrious. Such people need not be members of the bank, but by the benefits of this loan are often able to buy shares and join as members after a time. This seems an

The 'loan of honour.'

excellent method of preparing the ground for the extension of co-operation. The amount of this loan is small—within 100 *lire*—and it usually does not bear any interest.

The reserve fund.

Generally, these banks carry over 20 to 25 per cent. of their yearly profits to a reserve fund which is set aside for the purpose of covering unforeseen losses or of meeting contingent expenses, but on no account is this reserve allowed to be absorbed in the working capital of the bank. In the case of some banks, the amount of this reserve has been allowed to go beyond the amount of the share capital, which shows to what extent attention is sometimes paid in this system to the building up of reserves.

Why these banks are co-operative.

It may perhaps be urged that People's Banks are not entirely co-operative in their principles, the liability of their members being limited; but, in as much as they embody the principle of self-sacrifice by gratuitous service and allow credit to the poorest people without interest by the 'loan of honour,' they serve most of the functions of co-operative societies. Further, they do not exploit the public for the benefit of their share-holders as joint-stock banks are inclined to do, their rates of discount and dividend being kept low. They are, therefore, regarded as co-operative institutions and placed in the same class of credit as that evolved by the societies of Raiffeisen.

We have already seen that before the year 1870, the number of People's Banks established in Italy

rose to nearly 50 with an aggregate capital of about 17 million *lire*. In 1882 their number increased to 206 and their capital to nearly 58 million *lire*. In 1893 the number of banks stood at 730, and the capital of 697 of them stood at 118 million *lire* or £4,700,000. In 1893, the banks obtained by bonds and deposits 357 million *lire* (£14 millions), and lent out on acceptances, bonds and other securities 992 million *lire* (£39 millions). In the same year, 662 of these banks issued their membership rolls which amounted to 405,341, the average number of members per bank being 612.¹ Since the last twenty years or so, Luzzatti has been occupied chiefly with the financial government of Italy—becoming Chancellor of the Italian Exchange in 1906—but he has some able followers to propagate his system of co-operative credit.

The growth
of the 'Ban-
che Popolari.'

¹ See in the Appendix the present position of these banks in Italy.

CHAPTER V

UNIONS OF THE FOUNDERS

i
1
Union of
Raiffeisen
societies.

WHEN Raiffeisen societies were being established all over Germany, they obtained their loans from public banks in the country. Naturally they also deposited their funds with these banks—the joint-stock banks of the districts—which charged a high interest on loans and paid a low interest on deposits. These public concerns, after the manner of joint-stock companies, merely sought to swell their dividends unmindful of the support and care which the young societies needed. Consequently, during this period these societies had little hope of being able to reach the goal at which they aimed. Their ultimate object was to become strong enough to help their members, without having to depend much on the aid of self-seeking concerns. Raiffeisen thereupon devised a further plan of unity for the societies themselves, so that they might acquire greater strength and better credit. The village societies of a province were formed into a provincial union, and the provincial unions into a general union at Niewied-on-the-Rhine, which may be regarded as the apex of the Raiffeisen system in Germany.¹ This organisation was formed during the years 1876

¹ A provincial union does not necessarily correspond to a province in Germany. It covers an area of about 3 or 4 districts in India. Some of these unions seem to be sub-divided into sub-union sections.

and 1877. Although a co-operative society is a credit institution—that is, ‘a manufactory of credit and a machine of exchange’ as much as a joint-stock bank—and, therefore, must be connected with the financial market, it is too small and weak as compared to a public bank to have direct connections with it. Moreover, this organisation was formed not merely to increase the borrowing powers of the societies—since a society by itself was not able to obtain the extensive credit that a union of societies could—but also to keep them strictly within Raitfeisen principles, in case any of them should be led away by joint-stock influence. The federation fulfilled the latter purpose very effectively by employing a staff of travelling inspectors to audit the accounts and inspect the affairs of each society. Thus, the credit and control of societies were the main objects of this federation.

The main
objects
of
this federa-
tion.

There can be little doubt that the credit facilities of this federation were great. Each union had all the savings of the societies on the one hand and their loan requisitions on the other. It was first able to utilise a good portion of these savings for the purpose of giving loans and then able to borrow merely the balance required for loans from the general union. The general union in turn obtained extensive credit on low interest from the Prussian State Bank at Berlin. In this manner all the unions except the one at Niewied, were able to dispense with the help of public banks. The general union then organised a central bank,

Its credit
facilities.

also at Niewied, to which it transferred entirely its function of credit, reserving to itself its function of control. By this separation, the Raiffeisen federation developed both its functions. Finally, the central bank for the greater convenience of its constituents has established several branch banks in convenient centres.¹

The Central Bank at Niewied.

The Central Bank situated at Niewied is formed on the basis of limited liability, and almost all its shares are taken up by Raiffeisen societies in Germany.² The few shares not taken up by them are held by the public, but the work of the bank is strictly confined to the business of the societies. The unions in the provinces serve as convenient channels for passing through all business between the societies and the banks. In 1904 the share-capital of the Central Bank stood at 10,000,000 marks, being made up of 10,000 shares of 1,000 marks each share. Of this capital, 8,351 shares were taken up by 3,754 societies and all but 50,000 marks of their value had been paid up in the same year. The Prussian State Bank lends money to the Central Bank at an interest of only 2 per cent.; the Central Bank lends to the societies at $3\frac{3}{4}$ per cent. and allows on deposits $3\frac{1}{4}$ per cent. interest.

¹ There appears to be at present in the Raiffeisen System in Germany, from incomplete reports now available, nearly 40 unions—1 general, 13 provincial and about 26 sub-unions—also about 13 central banks. For further information see the section 'The Raiffeisen System' in the Appendix.

² Unlimited liability could not be adopted as a basis by this Bank as the societies could not know one another in the way that the members of a society are able to do.

The dividend payable on capital cannot exceed $3\frac{1}{2}$ per cent. and the balance of profits is carried over to a reserve fund. In 1908 the turnover of the Central Bank with its branches amounted to 758,190,505 marks (£37,909,500), and instead of being indebted to the Prussian State Bank, it had a deposit of 3,088,000 marks (£154,400) with the State Bank.

Schulze realised in the early years of his labours that to acquire the full strength of co-operation, it must not only be exercised by the members of his societies but also by the societies themselves. So his system formed an union and several sub-unions in Germany. But this federation seemed to originate with the object of acquiring strength to stand against the attacks of the opponents of the system rather than to increase its credit facilities. The latter object could not have appeared very essential to the system, as its societies had sufficient funds to get credit without difficulty from public banks in the country. There seems to have been this difference between the motives of federation in the societies of Schulze and of Raiffeisen. The motives of the Schulze union may best be described in the words of Dr. Hans Crüger—for sometime its chief secretary—who referred to this subject in the 1st International Co-operative Congress. "The aims of this union," he explains, "are as follows:—(a) the furtherance of co-operation in general; (b) the development of the constitution and the institution of allied societies; (c) the protection

Federation
in the Schulze
system.

Its objects.

of common interests by united efforts and resources; (d) the formation of mutual business relations between societies. The union is a means for the interchange of the experience gained, for counsel and help in any case of attack or difficulty which may embarrass individual societies, for the powerful union of their strength, for the prosecution and maintenance of common interests, for defence and unity in the face of threatening situations and dangers, for the formation finally of business relations among its members. The union defends the interests of associations publicly, by word and in writing, to an extent which makes even associations not affiliated to benefit by its action. * * * One arrangement deserves special mention, an arrangement which the credit associations have made with the help of the German Companies (Bank of Soergel, Parrisius & Co.), viz, the Giro Federation, the members of which cash acceptances falling due to one another without commission."¹

Greater
benefits ac-
crue from the
union than
were expec-
ted.

Although the societies of Schulze had in view these objects in coming into a federation, they realised only in course of time that it brought along with it greater advantages than they at first expected. There was the advantage of ascertaining the collective methods and purposes of the system by meeting in common council, which was a great advance in co-operation. Then the federation enabled the societies after their interchange of views to

¹ See Appendix and Report of the 1st International Co-operative Congress held in London in 1895.

come within the general control. This purpose was largely fulfilled by having inspectors to audit the accounts and inspect the affairs of each society as in the Raiffeisen Union. Accordingly, the Schulze Union was divided into sub-unions—called sections—which now seem to be about 33 in number. Another benefit derived by this federation was that it gave the sign of affiliation to a well-organised system to each society. This increased the confidence of the public in these societies. Finally, the federation suggested a collective method of considerable economic value. Almost all the societies were transacting business in acceptances which were being cashed by public banks on commission. It gradually occurred to these societies to have their own 'clearing house' service. Since then, the societies get their accepted bills set off against one another's claims—with regard to such bills—and the balance only, if any, paid to them in cash. This balancing of claims with regard to acceptances is done by the *Giroverband* within the federation *without any commission* which is a clear saving to the societies. This service is certainly common in ordinary banking, but not without commission.¹

We now find what great benefits have been derived by a knowledge of the collective methods and purposes of the systems of the two founders. But why is the study of the collective interests of

Why the study of collective interests is useful in economics?

¹ Read Macleod's "Theory and Practice of Banking" and White's "Money and Banking" for descriptions of the ordinary 'clearing house' system.

men specially useful to the economist? It is because social evolution obviously indicates that in human society a larger or a stronger interest is always naturally selected for survival in preference to a smaller or a weaker one.¹ Consequently, collective interests have greater survival-value than individual interests. It must now be explained that by collective interests is meant only such interests as have an identity of purpose as well as an uniformity of method, because the vitality or survival-value of collective interests is acquired merely by the avoidance of opposing methods, that is, by the economy of struggle. Herein we get the particular process by which such interests—which are to be found only in co-operation—become more permanent than those of individualism in social evolution, and, what else can be the basis of this evolution if it is not our economic life?

The weakness of the Luzzatti system without federation.

In the system of Luzzatti, there is really no federation. When a bank develops, it throws out branches and these in turn take root and live an independent life. "Decentralisation along with general

¹ Speaking of man's social progress, Dr. Benjamin Kidd says: "His first organised societies must have been developed like any other advantage under the sternest conditions of natural selection. In the flux and change of life the members of those groups of men, which in favourable conditions first showed any tendency to social organisation, became possessed of a great advantage over their fellows, and these societies grew up simply because they possessed elements of strength which led to the disappearance before them of other groups of men with which they came into competition. Such societies continued to flourish until they in their turn had to give way before other associations of men of higher social efficiency." *Vide* Kidd's "Social Evolution," 1894, p. 42.

alliance "is the motto which Luzzatti himself once impressed on his banks, but observing the looseness and irregularity that this principle has led to, there is nobody who regrets the lack of a federation in his system more than Luzzatti himself. He has often urged on his banks at least the necessity of inspection, but they will not have it. They believe that they have succeeded by self-help, and so will not have any general control. But they little know to what small extent they have succeeded by self-help and to what large extent by co-operation with others. The self may be regarded as the motive force in the machinery of co-operation, but it is by no means the entire machinery. You might as well say that labour is a factor in wealth-production without employment and payment. Referring to this system, Mr. H. W. Wolff says that "there is a 'federation.' But that is only a body of subscribers who raise funds among themselves to publish a journal—which the subscriptions do not always quite pay for—and organise occasional congresses."¹

¹ *Vide* Wolff's "People's Banks," 1910, p. 270.

CHAPTER VI

ALLIED SYSTEMS IN EUROPE

How these systems have spread abroad.

WHEN the benefits of these credit systems began to be realised, they spread from one locality to another and so took root in different parts of Europe. At the same time it was felt that the method of working a system in one country and under particular conditions did not exactly suit the varying conditions in another. So the followers of the founders of co-operative credit gradually introduced modified, adapted and even combined forms in various European countries. This credit has now extended even beyond Europe by force of necessity and the process of imitation, but its introduction beyond that continent is still rather limited, except in India where it seems to have attained an important position.

Adaptations of Raiffeisen and Schulze in Hungary and Austria.

About the year 1888, Count Karolyi founded societies in Hungary on the Raiffeisen model but with limited liability, as the land-owners there would not accept the heavier responsibility. Later on, they were inclined for unlimited liability and most of his recent societies are formed on this basis. The Central Bank in Hungary which feeds his societies is supported by the State. In Austria, associations mostly of the Schulze type have been established, with this main difference from their model that the body of members take less interest

in the affairs of their society which is left almost entirely in the hands of a larger council of control. Dr. Carl Wrabetz, President of the Union of Co-operative Associations in Austria, referred to these societies in the 1st International Co-operative Congress. "According to the report of the Imperial and Royal Statistical Central Commission in Vienna," he said, "there were at the end of the year 1893, 2825 societies of which as many as 2118 were credit associations. * * * More than three-quarters of these banks are of the Schulze-Delitsch system, the rest (scarcely 300 in number) of the Raiffeisen system. The banks of the latter system are mostly very small and their business is limited. A general account of their business returns only exists with regard to some provinces. In Lower Austria in 1891, the number of members of the Raiffeisen Banks amounted to a sixth of the whole number of members of credit associations; the loans of such banks represented one thirty-second part of the whole sum lent. In most Austrian provinces, the Raiffeisen banks were helped and befriended and even assisted with subventions from the provincial exchequers and especially favoured with regard to dues and taxes, while the Schulze-Delitsch banks do not enjoy an equal share of favour."¹

In Germany itself, Kreisrath Haas, at one time a lieutenant of Raiffeisen, being of opinion that his master's system had become too rigid and that

The asso-
ciations of
Haas.

¹ See Appendix and Report of the 1st International Co-operative Congress, London, 1895.

the opportunity of widening its sphere of usefulness was lost by too close an adherence to points which were not essential, formed associations of his own. Haas and his fellow-worker, Dr. Langsdorff, dissented from the Raiffeisen union merely on the ground that it had become too strong and centralised—not that it was wanting in any of the true principles of co-operation. His associations, which commenced to be formed about the year 1880, are based largely on Raiffeisen principles and are now quite considerable in number. A few of them are formed on the basis of limited liability and occasionally societies are found which pay dividends as high as 10 per cent. Generally speaking, however, Haas has departed from Raiffeisen principles in two noticeable ways—by having shares the average value of which is about 18 marks per share and by allowing stock-brokerage and cash-credit transactions in his societies. His members come mostly from the agricultural classes, and a good many of them are landlords who evidently find the latitude given to them in these associations more suited to their views than the rigidity of the Raiffeisen system. These societies of Haas have formed themselves into an union in which there is more power in the application of principles to special conditions than in the union of Raiffeisen.

The Raiffeisen system in Italy.

In Italy, Luzzatti was the first to recognise that his system of credit suited a particular class of workers. "We have delivered," he said, "the small trader and the middle classes from crushing usury,

we have assisted commerce, and, we have helped to cultivate the fruitful tree of thrift on ground which previously appeared absolutely barren." His system was confined to people living within urban limits. They helped and suited the artisans, shopkeepers, and craftsmen of towns who could turn over their capital in a short space of time, but scarcely touched the classes living in the country. So, he publicly expressed a desire that some apostle might think of raising banks in Italy after the model of Raiffeisen; and, in answer to this appeal Dr. Leone Wollemborg came forward. This organiser started his first *Cassa Rurale* or Village-Bank at Loreggio near Padua in 1883, personally subscribing £80 towards its funds. His system of credit, which is an adaptation of Raiffeisen to Italian conditions, has since developed to such an extent that nearly 2000 village-banks have sprung from it in Italy at the present time. His members consist of the poorest agricultural people. So long as a man is honest, reliable and thrifty—he may be ever so poor—he is welcomed into the *Cassa*. There are practically no shares and the liability of members is unlimited. This latter fact shows that even in Italy, where the people were very harshly treated by usurers and were naturally inclined to distrust those who offered to lend them money, unlimited liability was possible among rural people. Compared to the Raiffeisen banks in Germany, the *casse rurali* are smaller in point of membership, but the members meet oftener. Some-

The 'Casse
Rurali.'

times the general body assembles as often as four times in the year, and it limits the lending powers of the committee of management more than it is done in Germany. As there are no shares, properly speaking, it goes without saying that there are no dividends, and all profits are carried over to a reserve fund. Although loans are granted by the *casse* on the same easy terms as in Raiffeisen societies, that is, they are payable by instalments during a long period, the *casse* enforce every three months the renewal of loans, a practice adopted merely to make sure that the loans are being properly utilised. In other respects, especially in the matter of organisation, these societies follow strictly the lines of Raiffeisen.

Early attempts to plant this credit in France.

Since the middle of the last century, various futile attempts have been made to germinate popular credit in France, and their failures afford us no little experience and instruction. The first attempt usually spoken of in this connection, although it was more a scheme of co-operative production than of co-operative credit, was the loan of three million francs given by the State in 1849 to serve as working funds for national workshops, which was recalled in 1851. Another endeavour was made in 1860, when a *Société du Crédit Agricole* was formed by the Emperor himself to grant loans on easy terms and on proper security to agriculturists. This failed to attract sufficient business. The next important experiment was taken up in 1880, when the Republic helped the forma-

tion of the *Caisse Centrale* with a subscribed capital of twelve million francs to give loans to co-operative associations, which failed like the last named society to find sufficient support. In the meanwhile, some attempts in this direction were made by Buchez, the publicist, and Leon Say, the economist, which succeeded for a time owing to philanthropic support but failed to continue for want of the genuine spirit of co-operation.¹ At the same time, a number of small credit associations, on better co-operative principles, were formed by workmen themselves in different places. These associations did some useful work among the working classes until the Franco-German War, when they were mostly broken up.

All these early attempts served to show that co-operative credit could not be built from above but from below—to use the now celebrated phrase of Leon Say—and that it must begin with the formation of confidence from within and not merely with capital from without. And yet we must consider if any essential conditions must precede these methods. Why is it that when the State was taking all this initiative, the people were so scarcely responsive? There must have been some deeper cause for their apathy. Was it that the people did not know the value of this credit and how to set about it, or was it that there were no

Some causes
for their
failure.

¹ Buchez appears to have been the founder of co-operative production as Robert Owen is said to have been the inventor of co-operative distribution.

such poverty and usury in France during that period as in Italy and Germany? With regard to the two former suppositions, we find that the Germans and Italians were worse off at the start but to them necessity proved the mother of invention, also, that the French people had at least heard of the systems of the founders of this credit from Buchez, Leon Say and Vigano. The underlying causes for these failures then seem to be that the French people generally had no great necessity for this credit when these efforts were being made, and that in these attempts the poorest people were probably not considered. Anyway, when the various efforts made by the State and public men had failed, the germs of this credit were brought over from Italy and Germany, as will presently appear. About the year 1875, there seemed to be some need for popular credit at Cannes. Francesco Vigano, known as the father of Italian co-operation, formed a people's bank in that town on the system of Luzzatti. This bank gradually flourished but was ultimately converted into a dividend-hunting joint-stock concern, probably as the result of co-operation in which the spirit of self-sacrifice had ceased to exist. It was then left to a later day and to the efforts of Monsieur Charles Rayneri to attain the first success with this credit that may be regarded as permanent in France.

The "Ban-
que Popu-
laire" of
Mentone.

After the failure of a joint-stock bank in the town of Mentone in 1882, suggestions were made by some of its inhabitants to form a bank there

on the model of Luzzatti. Accordingly, the *Banque Populaire* was formed in that town with a capital of 150,000 francs subscribed for the most part by hotel-keepers, entrepreneurs and tradesmen. This bank continues to work to this day and grants loans generally on acceptances and the cash-credit system. It has a reserve fund and a savings bank department. Besides changing foreign notes and money, a special feature of this bank is that it shares its profits with its employees. The needs of a certain class of urban people seem to be so well met by this institution that it has become the model for people's banks in the country, and there are at the present day over twenty such banks established in various towns, mostly in the south of France. The scanty reports now available on the popular credit movement in that country seem to indicate that these banks have been formed mainly by the efforts of M. Rayneri. No definite opinion, however, can be formed on this point. Anyway, it is certain that M. Rayneri is the promoter of a scheme which has formed groups of village banks round each of these town banks. These village banks are now quite considerable in number.¹ The town banks supply the needs of trade and manufacture, and, by handing over their surplus funds to the village banks, also contribute towards the wants of agriculture. It seems that the plan of this originator is to make the urban

An union
of town and
village banks.

¹ See in the Appendix the article on Co-operative Credit in France.

banks serve as the financing and balancing centres of the rural banks. All these urban and rural banks have now come into a federation known as the *Centre Fédératif du Crédit Populaire*.

The 'caisses rurales' reproduce the system of Raiffeisen in France.

Soon after the introduction of the Italian system of popular credit in the South of France, the system of Raiffeisen was brought into the country by Monsieur Louis Durand. All the societies organised by him, known as the *caisses rurales* are of the pure Raiffeisen type, and it is remarkable how well they have suited, without any modification, the needs of rural people in France. These societies are located in villages and are based on the unlimited liability principle, having only honest and reliable men as members. They have the restriction of area, and, like the original societies of Raiffeisen, have no shares nor dividends. All office-bearers of the societies render their services gratuitously and every society has an indivisible reserve. As a rule these societies are smaller than those of Raiffeisen in Germany, having an average of only about 40 members in each, calculated from their returns in 1907. M. Durand commenced work about the year 1890, and in 1910 there were about 800 of these societies in France organised into a federation called the *Union des Caisses Rurales* which has its seat in Lyons.

A movement to establish agricultural credit in France was led by M. Tanviray about the year 1883.

According to his scheme a number of agricultural syndicates, for the purposes of collective cultivation, buying and selling, have been established, the main feature of which is that wealthy people are taken into the syndicates with the object of providing them with capital and management. These syndicates have organised a number of independent credit societies which seem to depend mostly on philanthropic support, to follow no particular system of credit and to have little co-operation of the right sort among them. The wealthy members of these syndicates give up all claims to borrow money from their societies, which should be, consequently, looked upon rather as benevolent institutions than as co-operative societies.

Agricultural syndicates and independent credit societies.

In spite of the past failures of state-aid with regard to this credit in France, the Government still seemed to think that without the help of state-funds co-operative credit could not be developed in the country, and an opportunity to help the people with such funds presented itself in 1897. In that year the charter of the Bank of France was to be renewed, and, as the price of such charter it was settled by the State that the Bank should advance forty million francs without any interest to an Agricultural Credit Fund, this loan to be repaid in 1920 when the charter would terminate. Besides this loan, it was arranged that the Bank should make a gift every year to this Fund of a portion of its annual profits, which has so far amounted to five million francs atleast annually. It was further deci-

State-aided co-operative credit.

ded that the Minister of Agriculture should have the charge of disposing of all this money. Accordingly, he has devised special machinery for this purpose which has brought into existence the Local and Regional Banks—institutions meant to follow more or less the plan of Raiffeisen. In this scheme of subsidized co-operative credit the Government is supposed merely to inspire, instruct and find the funds. These duties it seeks to do by elaborate legislature on the subject of this credit.

Local Banks.

A Local Bank usually extends its business over a larger area than a Raiffeisen society and covers a few *communes* or parishes. In this respect it follows more the practice of Schulze than of Raiffeisen. With regard to liability, it has the option according to the law of making its liability either limited or unlimited, but, it generally adopts the former basis. Although the State desires these banks to adopt the heavier responsibility, being naturally anxious to have a proper security for its loans which must ultimately be recovered, these banks do not care to assume this responsibility. The reason for it is that they have a very small hand in the granting of loans which are issued almost entirely in accordance with the law. A Local Bank begins with seven members, each buying a share the value of which is fixed as a rule at 20 or 40 francs. Only a fourth of the value of each share need be paid, and for every 20 francs thus subscribed the Government undertakes to advance 80 francs with the approval of a Committee of Inquiry. Thus, for

every 5 francs paid in, the Government loan usually amounts to 80 francs, free of interest for five years and renewable after this period, which is too liberal a support by the State. In accordance with the Act relating to this credit, all loans granted by Local Banks must be for strictly agricultural purposes which seem to imply merely the raising of produce from the soil. Permanent improvements on agricultural land, such as irrigation and drainage, are not included in the list of these purposes. Then, the periods for which loans are given by these banks must be determined by the provisions of this Act and not with any regard to the special circumstances in each case. These banks have each a *conseil*, council of management, and often a *bureau*, executive committee, the members in all cases rendering their services gratuitously. The *conseil* meets once a week. Every bank has a reserve fund and the rate of interest on loans to members seldom exceeds 4 per cent, loans granted to the bank by the State carrying no interest, as we have just seen. During 1910 the number of Local Banks in France amounted to 3,338 and of their members to 151,621.¹

Regional Banks are somewhat similar to the central banks in the Raiffeisen Union in as much as they act as the financing and balancing centres

Regional
Banks.

¹ See *Bulletin of Economic and Social Intelligence*, January, 1912, p. 73, issued by the International Institute of Agriculture at Rome.

of Local Banks. Each Regional Bank extends its business over an area technically known as a *region* which is more or less co-extensive with a 'department' in France. These banks issue shares and the liability of their shareholders is limited. Some of these banks have tried to improve their security by increasing the liability of shareholders to two, three or four times the value of their shares. The shares of these banks are held for the most part by Local Banks, but individual shareholders are to be found also among them. The State advances its funds to the Regional Banks which in their turn distribute them among the Local Banks. In this scheme of so-called co-operative credit, the Minister of Agriculture utilises Regional Banks as 'distributing channels' and Local Banks as 'distributing rills' for his aid to agriculture, as well described by Mr. H. W. Wolff. "Under the peculiar circumstances prevailing," he observes, "organisation must necessarily proceed from the top to the bottom. Credit must be organised like a scheme of irrigation, the main conduit feeding the irrigating channels from the top."¹ Apparently, the only organ of administration which a Regional Bank possesses is a *conseil* or committee of management, the office-bearers in which render their services gratuitously. The *conseil* meets once a month. Every bank has a reserve fund. In 1909 there were 94 of these Regional Banks in France.

¹ *Vide* Wolff's "People's Banks," 1910, p. 441.

A comparative study of the methods of the state with regard to co-operative credit in certain countries may now be made. In Germany, the State appeared with its assistance when the machinery for confidence had been already constructed by the people, when organisation, system and control were built by them, and, when their credit had been established in the financial market. Yet this help mainly consisted in the Prussian State Bank in Berlin lending money to the central banks of the Raiffeisen and Haas Unions at a slightly lower rate of interest than what they were borrowing at from the financial market, and, in the Government auditing the accounts and inspecting the affairs of the credit societies periodically. In short, it looked as though the State stepped in to benefit itself, to find a safe and lucrative investment for its funds rather than to aid the people.

The State
in relation to
this credit in
Germany.

In France, on the other hand, the State commenced the movement and began to distribute money when there was apparently very little desire on the part of the people to borrow, when no proper moral and material securities were offered by them, when no methods by which they could obtain the confidence of financiers were visible. In fact, there was no mechanism for credit, really speaking, because capital which is the object of credit had been already found by the State. It was for the most part a case of building from the top to the bottom over again, possibly because the French people were not still in real need of credit. In

State-aided
credit in
France.

their soil even the reactionary principle of invention becoming the mother of wants, so well pounded by their economist Tarde, did not seem in those days to apply with regard to this credit, possibly for the underlying causes we have already observed. Anyway, this scheme of state-aid still awaits its test in 1920 when the forty million francs will have to be repaid to the Bank of France, to say nothing of the advances made out of the Bank's annual grant of five million francs.

The State
in relation to
this credit in
India.

The methods of the state with regard to this credit in India, as we shall see in a subsequent chapter, are again different to those in the two aforesaid countries. In this country, the State inaugurated the movement, but offered assistance in money only to the extent that the people were able to form on strictly co-operative principles their own credit. And even this slender aid is being withdrawn as their credit is beginning to show signs of health and vigour. Just as in Italy and Germany, co-operative credit was introduced among people sunk in poverty and usury, so also in India this credit has been sown on soil thirsting for want of capital. But the prospects of a wide appreciation of this credit are perhaps more favourable in India than in Italy or Germany, when we come to consider that the Indian people have been accustomed for many centuries to the joint-village which contained a fairly extensive system of co-operation, although in a rudimentary stage.

Co-operative credit is reported to have been introduced in Russia about the year 1865 when the first credit society was formed at Dorovatovo.¹ But its real development has taken place only during recent years, for reasons explained by Colonel J. Gerebiatoff before the 5th International Co-operative Congress. These are instructive in many respects. "The reasons of such tardy development," he remarks, "are in my opinion these:— (1) The geographical, social and political conditions prevailing in Russia are unfavourable to a rapid extension of co-operative action. The large rural populations are scattered over an immensely wide area, living in small clusters in little villages separated by distances of five, ten and more miles from other villages, and not numerous enough in each place to support a strong co-operative institution. In addition to this, the peasantry are for the most part poor, and lamentably wanting in education and the practice of self-reliance. A large proportion can neither read nor write, and nearly all look habitually to some one else to guide them. (2) The migratory habits of what may be called the industrial population render useful and sustained co-operative action difficult. Our great industrial and commercial establishments, carried on with considerable capital, are situated in the larger towns only of certain districts. The

Co-operative credit in Russia.

Difficulties in the way of its development.

¹ See Year-Book of International Co-operation for 1910, edited by Dr. Hans Muller, and issued by the International Co-operative Alliance, London.

workmen employed there are to a large extent recruited from the peasantry settled in their little houses and farms in distant villages, to which they repair regularly every spring in order to till their land, returning to the factory towns in the autumn to live and work there only during the winter. Let alone that these people are thus periodically changing their domicile, they are in addition for the most part wholly ignorant of the principles and the benefits of co-operation and therefore unable to practise it. (3) There is thus far no central popular educating and propagandist body in Russia to extend a knowledge of co-operation and make known its advantages. (4) I am afraid I must add that even among such Russians as do practise co-operation, the true principles of that movement are very little understood and appreciated. They have become accustomed to acting together, but it is as a rule with a view to the attainment only of immediate small advantages, in a hand-to-mouth way, without any idea of creating something which may endure and develop and permanently improve the condition of the poorer classes."¹

How these
difficulties
have been
overcome.

In spite of the difficulties which once existed in the way of the growth of this credit, it appears that poverty and necessity in the people have gradually supervened and overcome many obstacles.

¹ See Report of the 5th International Co-operative Congress held in 1902, and issued by the International Co-operative Alliance, London.

Owing to these compelling forces, which sometimes tend to intensify with time, the efforts made by the State and public-spirited men to introduce this credit have found a ready response from the people. Consequently, there has in recent years been a remarkable extension of this credit in Russia. Of course, to what degree this development will prove sound or superficial will depend not merely upon the wants of the people, but also upon the methods and principles that they are able to adopt. Reports of this credit, which are so far very scanty and not very reliable, go to show that a large number of societies have been formed on a selection of Schulze and Luzzatti principles, while there are many which seem to be experimenting with a combination of the principles of Schulze and Raiffeisen. It is stated that Russian societies as a rule have wide fields of activity which include two to three thousand households to each society, that they have salaried officers and grant short-term loans, as in the societies of Schulze. They are also said to be based on limited liability which is the basis of ultimate risk adopted by Luzzatti. It is reported that in 1913 there were in Russia 8,340 co-operative credit societies, 3,158 co-operative loan and savings banks, 158 zemstvo people's credit banks and 5,021 loan and savings banks of the rural communes. There were also 12 unions of the aforesaid institutions.¹ On May 8th 1913, the

The nature
and position
of this credit
in Russia.

¹ See *Viestnik Melhavo Kredita*, No. 19 of May 16th, 1913, St. Petersburg.

Russian Government placed at the disposal of these institutions the sum of 187,269,100 roubles, of which amount 150,007,200 roubles represented short-term loans and 37,621,900 roubles long-term loans. Of the short-term loans 23,281,000 roubles were given for loans secured on pledge.¹

This credit
is spreading
all over the
world.

Co-operative credit has now spread over Belgium, Switzerland, Bohemia and Servia. The total amount lent by co-operative credit societies in the continent of Europe during the year 1900 has been estimated at about 190 million pounds sterling, an amount almost equivalent to two-thirds of the public debt of India. This form of credit is also being introduced in Ireland, Transylvania in Hungary, Japan, and China. Although building and loan associations have existed in Pennsylvania, Ohio and Illinois for many years, this credit is only now beginning to find its way in the United States of America. Among the progressive countries of the world it is only in Great Britain, the home of co-operative distribution and of trades unionism, that co-operative credit has not yet been tried to any noticeable extent.

Its prospects in
the United
States.

Discussing the sources of rural credit and the extent of rural indebtedness in the United States of America, Mr. Geo. K. Holmes, Chief of the Division of Production and Distribution in the Bureau of Statistics at Washington, makes the following observations:—"As a result of the computations that have been made, it seems probable that the amount

¹ See *Bulletin of Economic and Social Intelligence*, September, 1913, issued by the International Institute of Agriculture, Rome.

of the agricultural debts of the farmers of the United States is as great as \$5,000,000,000. The debt of agricultural labourers is not included. * * * It is not yet regarded as impossible that farmers in some parts of the United States will adapt themselves to the maintenance of co-operative credit societies. The reports to the Secretary of Agriculture in the autumn of 1912 from country bankers, merchants and other rural correspondents indicated that a co-operative rural credit movement may be made practical and successful. * * * Of the correspondents, 32 per cent reported that there were no farmers who would be willing to form such an association, but the remainder of the correspondents reported that about 40 per cent of the farmers stood ready to organise such co-operative associations. * * * A large fraction of these farmers now get all of the credit that they will take, but many do not, and a supply of additional credit to these farmers would return profit to them, would increase the national production of wealth and would be conducive to the public welfare."

¹ See *Bulletins of Economic and Social Intelligence*, April and May, 1913, issued by the International Institute of Agriculture, Rome.

CHAPTER VII

THE INDIAN JOINT-VILLAGE

Places
where joint-
villages have
existed.

CO-OPERATION in some form or other has been found useful to industrial society in almost every country. Indian village communities have witnessed an excellent form of co-operation not dissimilar to some of the early institutions of the West. Although the opinions of well-known writers like Sir H. Sumner Maine and Baden-Powell vary somewhat as to the nature and extent of joint-villages in India, the latter is of opinion that they have existed for many centuries in this country north of the Vindhya Hill series, that is, in the Punjab, the Frontier Province, the United Provinces of Agra and Oudh, and probably also in former times in Bihar. In defining their area by these territorial limits, Baden-Powell, whose facts and findings on this subject carry much weight, proceeds to remark that "a few villages of the same kind are found in Upper Western India (Gujarat) and there are widespread traces of formerly existing shared (or land-lord) village estates in the Dakhan and in certain parts of South India."¹ These villages have a method of joint-ownership in land which for purposes of legislation is described by the State as the *zamindari* system. There is another type of land-ownership in villages which for the same purposes is specified by the Government as the *ryotwari*

¹ "The Indian Village Community," by Baden-Powell, pp. 7,8.

system. In this type the village is owned by people having separate proprietary rights in distinct plots of land, and so, it is not joint.¹ Although nearly all villages in this country at the present day are of this latter type, they do not contain the system of co-operation we are now concerned with.

A joint-village has no visible feature by which it may be recognized. It is only by its ownership and government that such a village may be known. Even the meetings of its council cannot be regarded as a distinctive feature, as councils meet also in the *ryotwari* village. The joint-village, however, possesses certain customs connected with its constitution which are somewhat prominent and discernable without difficulty. In Northern India, the estate belonging to a joint-village is known as the *shamil-ath* (a word derived from the Arabic *shamil* which means 'joint' or 'together') and, this word is often used by the people when referring to the village

Some customs in these villages.

¹ Refer to the following official definitions:—"Where the revenue is imposed on an individual or community owning an estate, and occupying a position identical with, or analogous to, that of a landlord, the assessment is known as *zamindari*; and where the revenue is imposed on individuals who are the actual occupants, or are accepted as representing the actual occupants of holdings, the assessment is known as *ryotwari*. The former of these systems prevails throughout Northern and Central India, that is to say, in Bengal, the United Provinces, the Punjab, and the Central Provinces; and the latter in Bombay, Madras, Assam and Burma."—Extract from *The Indian Empire* (Introduction to *The Imperial Gazetteer of India*) Vol. IV. p. 207. While these are the two main systems by which land is owned in India, there are certain systems of land-tenure by which it is held from owners by occupancy-tenants, tenants-at-will, etc. The *bhainchava* and *pattidari* systems form merely the bases upon which shares are divided in the joint-estate belonging either to the joint-village or by joint-succession to portions of the *ryotwari* village.

itself. The *shamilath* generally consists of all land in the village together with dwellings, welis, temple or mosque. In the case of cultivating tribes—such as the *Jats* of the Punjab—cattle and agricultural implements also seem to be included in the estate. The owners of joint-villages in the Punjab usually cultivate on their own lands, and so, they are known as peasant-proprietors. In the United Provinces the practice is somewhat different, as the owners generally keep only small portions of their lands—known as *sir* lands or home-farms—to themselves, and give out the remaining portions to tenants. During the last three or four generations, the ideals of individualism have so divided the joint-village that it has changed generally into the type known as the *ryotwari* village. It is only in North-Western India that some of these villages still survive. Owing to joint-succession, the co-sharers of surviving joint-villages have naturally grown in number by the multiplication of families, but occasionally a joint-village is found the inhabitants of which have increased beyond all proportion to the sub-division of shares—numbering between 1000 to 2000 inhabitants. This is apparently due to the village having ceased to be an agricultural estate by being absorbed into an urban area, where the co-sharers have found it more profitable to rent out their lands for dwelling and building purposes. Thus, the co-sharers of joint-villages do not invariably cultivate or occupy their own lands at the present day.

Speaking of the origin of joint-villages in India, Baden-Powell is of opinion that "the joint-ownership depends solely on the existence of the joint-family, that is, on the law or custom of the joint-inheritance of a number of co-heirs in succession to an original founder or acquirer." A few extracts from his clear description of joint-villages may here be given. "The *patwari*—whose native title we inadequately attempt to translate as 'accountant' or 'village registrar'—is, of course, to be found. Receipts have to be given, village accounts kept, and statistics prepared, as much in joint-villages as elsewhere. But, as Sir H. S. Maine has pointed out, there is no real 'headman.' The management of the affairs of the joint body is properly by a committee of heads of houses or *panchayat*. But some one must represent them at the collector's office and be their spokesman, and also be responsible for the duties which the State may require of the village owners. Hence, at any rate in modern times, a headman, whose hybrid title *lambardar* (holder of a 'number' in the collector's list of land-holders) indicates his recent origin, is appointed; and his office is allowed to be in some degree elective, while it also tends to become hereditary if the next heir is qualified. As most villages are divided into certain main sections or *patti*, there will be a *lambardar* for each section. In the Punjab, where the *patti* are often numerous, it has been found necessary to have a further single representative of the

Their
ownership
depends on
inheritance.

Their con-
stitution.

The 'Panchayat.'

several section-headmen; such a person is called the *ala-lambardar* or chief-headman. * * * The *panchayat* at the present day has indeed lost much of its ancient power; partly owing to the partition of lands, partly owing to the facility of reference to the district law courts. * * * Perhaps the most frequently surviving occasion of the *panchayat's* action is in connection with the adjustment of accounts which, in some villages, still takes place annually or after each harvest. Then the proportion in which the revenue-dues are to fall on the different holdings may need to be adjusted, and, in any case the headmen (*lambar-dars*) have to recover their expenditure under the head of *malba*, i.e., common expenses of the village, such as entertaining strangers, repairing the *patwari's* office, expenditure on the village mosque or temple, charities, religious offerings and the like. The co-sharers may object to some items as not properly common expenditure."¹

Unseen
economic
foundations.

Upon a closer inquiry into these and certain other customs which are found in Indian joint-villages, it will appear that they contain co-operative principles not very dissimilar to those which Raiffeisen and Schulze-Delitsch sought to bring about. The co-sharers of a joint-village do not give out their lands to tenants nor take rents and profits from them separately. Neither do they engage with the State for the payment

¹ Vide "The Indian Village Community" by Baden-Powell, pp. 23-25.

of land-revenue and pay in the amount individually—each co-sharer his particular portion. All these transactions are settled at the *panchayat* and effect is given to them by the *patwari* or the *lumbardar* on behalf of the corporate body. This has always been the custom, as the co-sharers are fully conscious of the joint responsibility which rests with them in connection with their property. Their liability is, consequently, joint and several in the economic sense, a basis upon which, as we have already seen, the Prussian Land Banks were also formed, and which is the foundation of co-operative credit. In its decaying stage which we must fix to modern times, the joint-village does possess for its co-sharers the option of a release from this unlimited liability; there is the means of escape from it by 'partition,' but to what extent the co-sharers are resorting to this course, it would be difficult to say. It is, however, certain that they very seldom sell a share to an outsider without the consent of the other co-sharers, as all of them have to make sure that the stranger is honest and reliable. In such sales even, attempts are almost invariably made by one or more of the other co-sharers to buy in the share, and so keep it within the brotherhood. This is known as the exercise of the legal right of 'pre-emption.' Likewise in the proper co-operative system, it may be stated here, that shares are not re-saleable except to the society, as no stranger can possibly be allowed to come in. The joint-village, therefore,

Joint and
several res-
ponsibility.

The right
of 'pre-emp-
tion' is really
a co-opera-
tive prin-
ciple.

in this respect also is worked on the soundest co-operative principle.

The spirit
of self-sacrifice.

In this village the Raiffeisen principles of restricted area and membership are contained naturally, owing to its sphere and number of residents being limited. The principle of gratuitous service is also to be found in this village. Any co-sharer who attends to its affairs does so without any remuneration, the *patwari* alone being paid as his work is heavy. Sometimes, the *lambardar* is also given a small compensation. Even these payments were made in former times on a strictly co-operative basis, that is, by giving the workers small shares in the produce of the fields. This custom might have been due to the fact that grain in those days was the ordinary medium of exchange, but the basis of payment was a share and not a fixed quantity in the produce.

Publicity
of accounts.

The accounts of rents and profits in the joint-village, as in the systems of co-operative credit, are openly declared to the members. Very often the village-council sits over them from day to day discussing the items after their work in the fields. By this publicity mutual trust is sustained. Moreover, the administration of the joint-village is carried out on democratic lines as in the co-operative society. In the village-council the poorest co-sharer is supposed to have an equal voice with the best-to-do in matters affecting the joint property. Sir Charles Metcalfe accordingly refers to these villages as 'little republics.'

Democratic
rule.

The government of these joint-villages being so equitable at the present day, it has been difficult, even for writers on this subject, to find causes for their dissolution. Such causes do not appear to lie in their constitution which has evidently suited them for centuries. An enquiry into the motives for their existence would probably throw more light on this question. Upon a study of the social conditions connected with these villages, it would appear that they were held together chiefly for economic conveniences. The main purposes which the members of this early institution had in view when they combined into bodies were, doubtless, to protect themselves and their crops against plunderers, to have greater security in the pursuit of their labours, perhaps also to ensure sufficient help in times of sowing and of harvesting. Previous to British rule, life and property were more insecure in Northern India than in the other parts of this country owing to foreign inroads; and, possibly, this vague fear to some extent led the members of these villages to seek greater safety. But the various causes, whatever they might have been, that united them in groups and held them together were compelled by motives of self-protection and self-help which are impulses of a purely economic nature. The joint-family and social sentiments did appear in the joint-village but at a later stage, probably when the common ancestor took the place of the exogamous founder. It was at this stage that the unity of the family must

The underlying causes for unity.

have been enjoined as a custom in the joint-village to keep together and continue the economic advantages of corporate life, and in this new order certain social sentiments, such as joint-inheritance, the institution of caste and endogamy, must have gradually appeared. Still such sentiments could not have been the dominant ties which held the co-sharers in union, and, we are not aware of any other social benefits of a purely sentimental character existing in ancient rural India. When we come to consider in this connection the religious mentality of the Indian people, we find that it has affected their material life in ways somewhat different from what could have led them to this system of co-operation. Consequently, this consideration goes beyond the scope of our present inquiry.¹

Their origin was economic.

There were cases of the formation of joint-villages in tribal areas and by particular clans, but the essential motives for their continued corporate

¹ Although it is well-known that we cannot draw definite lines of demarcation between the economic, ethical, juristic and political conditions of men living in society, nobody could say that in primitive man the satisfaction of material wants did not come before the display of social and religious sentiments, and civilized man has not been able to reverse this order of human impulses. Therefore, it may be said that in life man is immediately surrounded by his economic sphere. Around this sphere and dependent upon it are his juristic, ethical, religious and political spheres, for the ordinary man seeks first to satisfy his wants, then to exercise his rights, and then to do his duties. From these facts, it may be inferred that our economic life is the basis of social evolution and that when we are able to understand human impulses better by the study of sociology, we shall come to know more thoroughly the laws relating to human wants a knowledge of which is so essential in the study of economics.

existence must not be confused with the distinctive bonds of kinship. Instances have also been recorded of the rise of such villages by the decadence of states and chiefships, unions in which it would be rather fanciful to trace the sources to the recollections of citizenship or joint servitude. Such cases, in the absence of positive evidence of economic motives, may be regarded as the adventitious circumstances which attended the history of this institution. The underlying causes for the origin and growth of joint-villages, therefore, were mainly materialistic. Naturally, it does not surprise us to find that, in spite of social bonds and blood ties in the present age, the decisive factor in the dissolution of these villages has been the passing away of the older economic conditions.

It is obvious that the main cause for the dissolution of these villages is the reduction in the extent of their shares. Owing to their sub-division through generations of joint-succession, the co-sharers have increased so greatly in number and each share has diminished to so small an extent in most joint-villages, that it proves a loss to bestow much time and attention to such shares, especially when by the growth of individualism it has become extremely difficult to secure unanimity among an ever increasing number of co-sharers. Hence these estates, after being neglected for a time, are passing into the hands of fewer proprietors. A class of co-operative credit societies is now being formed among the co-sharers of *shamilath* estates in the

The main
causes of dis-
solution.

Social sentiments have no connection with their dissolution.

Punjab, an object of which is to prevent the neglect of surviving joint-villages.¹ There is besides, a change of other economic conditions which is causing this dissolution. It appears that, under British rule, the security of life and property and the rise in the price of land have in some cases led the co-sharers of joint-villages to sell out. Sales of the latter kind have been occasioned by a desire for gain, and, perhaps this desire has been more on the part of creditors than of co-sharers, as sales have taken place often to liquidate mortgage debts.² Anyway, it is evident that these villages are not dissolving by a relaxation of sentimental social ties, because it is again found that the customs and usages relating to such ties still remain unchanged; and, there is very seldom a disregard of the moral and legal rights of co-sharers. It may also be said that when the management of the joint-family is tainted with selfishness or injustice with regard to material matters, 'partition' generally takes place. Having these facts in view, we should infer that joint-villages have dissolved into separate holdings and have passed into the hands of distinct proprietors, that is, they have assumed the *ryotwari* form chiefly by the advent of new economic conditions. The history of co-operation

¹ Mr. A. Langley, Registrar of Co-operative Societies in the Punjab, describes this scheme in his publication *How to start a Punjab Village Bank*.

² The Punjab Land Alienation Act of 1900 and the Bundelkhand Land Alienation Act of 1903 were passed principally to prevent the money-lending classes from acquiring the lands of the peasantry in Northern India.

in Europe, during the last sixty years, also teaches us that all co-operative systems have a tendency to fail, if improved circumstances lead them to an abandonment of corporate interests and introduce in their place the ideals of individualism. Co-operation arises out of the weakness of men which it converts into strength, but all strength is inclined to bring in its train the evils of egoism. Hence the spirit of self-sacrifice, when introduced in co-operation, serves as a counteraction to these evils—a process which seems as useful in this section of economics as it is in ethics.

CHAPTER VIII

CO-OPERATIVE CREDIT IN INDIA

The indebtedness of agricultural people.

THERE can be little doubt that the financial condition of agricultural people in almost every part of India at the present day is not very enviable. In many places, they are heavily involved and mortgages on land are frequently transmitted from father to son. Their position is rendered more deplorable by the ruinous terms upon which they take loans from money-lenders. The fact that up to this day money is not always the medium of exchange in rural tracts is a serious drawback to these people, as consequently, they do not know its exchange value and the money-lender takes undue advantage of this ignorance. There are several classes of money-lenders in this country, and the profession is not confined to the *bania*, the *sahukar*, the *marwari* or the *pathan*. These classes are generally the usurers, but money-lending often becomes an occupation with the petty landlord, the avaricious trader and the miserly pensioner.

Usurious ways of the money-lender.

The money-lender in rural India carries on a business the intricacies of which he seems to understand better than his unfortunate debtor. His usual practice is to lend rupees and take payment in grain at a lower price than the market rate. He also appears to know a little of the theory of credit, and that interest must be regulated by the

solvency or security of the borrower. Thus, if the borrower has good credit, being a reliable cultivator or a man of means, he charges him a moderate rate of interest, which is, however, not less than 1 *pysa* per *rupee* per month or $18\frac{3}{4}$ per cent per annum; but, if his credit is at all doubtful, he charges him interest at the rate of 2 *pysas* per *rupee* per month or $37\frac{1}{2}$ per cent, it being always implied that the borrower's crop stands as a security for the debt. Being a small financier, he does not lock up his money for any length of time, and so, he generally fixes the term of the loan to six months. If it exceeds this period, he often doubles the interest, charging the regular interest over again as penalty. In addition to the loss the debtor incurs by repayment in grain and the exorbitant rate of interest, he provides the lender in backward places with small perquisites—such as vegetable, fuel and fodder free of charge. He submits to this extortion out of his necessity and ignorance. In the Punjab, for instance, the *sahukar* is seldom known to give receipts for payments which he gets from his debtor, and the latter does not seem to object to this practice until a suit is filed against him by the former for amounts which he has actually repaid.

Under these circumstances, the cultivator has to make over to his creditor a good portion of the products of his labour, keeping barely sufficient to support himself and his family. This being his normal condition, it is needless to imagine

This credit
should solve
the famine
problem.

An inquiry
into this pro-
blem by the
State.

his distress in times of drought and scarcity when even this usurer will not advance him any money. The prospects of recovering loans becoming remote when issued to famine-stricken people, their credit shrinks during periods of famine which are unfortunately not very infrequent. Thus, the question of improving their credit during such periods presses for solution and it becomes necessary to analyse the famine situation. Referring to the causes of famine in India, the well-known state gazetteer makes the following observations: "The farmers have no capital and depend on unorganized local credit which shrinks when harvests fail." * * * "Formerly war, rapine and misrule were direct causes of famine. These have disappeared and in the process a new problem has arisen. Peace has multiplied the people. The custom of the country favours early marriage, while the general security has removed the old checks on population. And as those who have least hope in the world usually bring most children into it, the increase of population has been great among the poorer cultivators and the agricultural labourers. The modern outlets, emigration and industrial development, afford as yet little relief. Large tracts in India still await population, but the inhabitants of congested districts will not move to them, partly from habit, but largely from regard to caste and language. Industries are growing up, but as yet they draw only small numbers off the land, occupation being still prescribed by inheritance and tradition. Pressure

therefore, increases where it is already greatest. Holdings already small are sub-divided or sublet at competition rents, while the supply of agricultural labour out-runs the demand for it, and so keeps agricultural wages low. This is the great famine problem."¹ The aforesaid investigation, so admirable in the collection of facts, shows only roughly that various socio-economic evils give rise to famines, but it would be an essential error in analysis to confuse the cause with the effect. Whether a phenomenon is produced by the interaction of forces which seem to be co-existent or by the process known as 'a circle of causation,' the facts must be examined with regard to time, so that cause and effect may be clearly determined. The phenomenon must also be examined from the time it occurs to the time it originates, so that it may be traced back to its sources. Upon an analysis of the situation immediately preceding the occurrence of a famine, we find that the country produces her own food-stuffs, that a portion of them is exported, and that international market conditions exist generally in the land.² Since the

An excellent collection of facts, but it offers no solution.

¹ See *The Indian Empire*, 1907-8, Vol. III, pp. 475, 477.

² We cannot say that international market conditions do not exist generally in India at the present day. It is true that we are still in certain backward stages of industrial evolution which are often primitive or mediæval in rural India and approach the modern aspect only in urban areas and sea-ports where the factory system is being established. But our commercial position is more advanced, as almost all localities now in this country have some means of transport and communication with the various centres of export and import. Speaking with special reference to food-stuffs, we find that wheat, rice and other produce are regularly exported to foreign countries. We also observe that at any time the prices of particular qualities of Indian rice and wheat are the same wherever they are

An analysis of the situation before the occurrence of a famine.

famine does not cut off the means of transport and communication, nor prevents the local demand of food-stuffs from being met by the supply of surrounding markets, we should infer that starvation merely implies an inability on the part of famine-stricken people to pay high prices for food. If in a famine area there are difficulties of transport, prices would run higher, but food-stuffs would reach the area all the same, especially because there is a surplus production in the country meant for export. But even if there was no such surplus, the shortage in the famine area would be made up by markets in the country and in the world by the laws of supply and demand operating freely.¹ Again, the situation being normal in other respects, starvation in the famine area when there is a bumper harvest in another would imply an inability on the part of the people to pay even normal prices for food. And why is it so? It is because by the failure of their harvest they have lost almost all

exported, less their cost of transport. This means that 'the law of indifference' applies to these products in all their markets which have become practically one universal market. Hence, we must say that Indian rice and wheat come under international market conditions. There are, of course, some food-stuffs in India (such as maize and fruits) the market conditions of which are still national while there are others (such as fish and vegetable) for which these conditions are purely local. In fact, the subject of markets in this country is an exhaustive study, for we must not forget among other considerations that India is one of the large produce marts of the world.

¹ International market conditions are so well known to be a remedy against famines that Professor Gide says "international commerce provides a kind of assurance against famines, against the effects of the failure of crops, and against a multitude of economic misfortunes the effects of which are either attenuated or entirely prevented by trade between nations." *Vide* Gide's "Principles of Political Economy," 1912, p. 306.

their resources for the season.¹ Hence the cause of distress during famines in India is the want of money and not of food-stuffs, that is, the poverty and indebtedness of our agricultural people; and, an analysis of the causes of poverty could be made in the order we have adopted, if our historical knowledge of certain socio-economic evils had been more complete than it is at present.² The fact that usurious rates of interest are paid upon loans by these people may be taken as a test of the amount of money they possess. While cultivators themselves are so placed in this country, it is also obvious that the agricultural industry is suffering badly for want of money. These being the pressing needs for capital which our agricultural people suffer from, it will now appear that the main objects of co-operative credit must be to reserve funds for such people in periods of famine, to organize capital for the development of agriculture and other indigenous industry, and to relieve the indebtedness of the lower stratum of industrial workers.

The feasibility of providing peasants in India with capital for their industry at reasonable rates of interest has at various times attracted the attention

Attempts
to establish
agricultural
banks.

¹ *The Indian Empire* observes elsewhere that "the people are not generally dependent on the out-turn of a single harvest." This statement can hardly be called accurate, for if it were so, clearly a famine would not occur by the failure of a single harvest; but reliable reports of famine years go to show that this supposition does violence to undeniable facts.

² The want of rain or of a reserved water-supply may be urged as the immediate cause of famines, but such causes are superficial and can be removed by the expenditure of capital. So, in any case, the want of money is the real cause of famines.

of the State and public spirited men. In 1882, a plan for an agricultural bank near Poona was devised by Sir William Wedderburn and several residents of that locality, but for some reason or other the scheme was finally abandoned. Attracted probably by the existence of *niddhis*, a kind of mutual loan societies in the Madras Presidency, the local Government under Lord Wenlock deputed in 1892 Sir Frederick Nicholson, then in the Madras Civil Service, to enquire into the possibility of introducing a system of land-banks in that province. This officer reported in 1896 the hopelessly involved condition of the Madras peasants and the absence of mutual trust among them, but suggested that attempts in the direction sought may be made. His illuminating and exhaustive report summed up with the sound advice expressed in the two following words—"Find Raiffeisen."

Experiments lead to the passing of Act X of 1904.

Nicholson was accordingly deputed a second time in 1899 to start a few banks in suitable localities on the basis of Raiffeisen. In the meanwhile, Lord Macdonnell, then Lieutenant-Governor of the United Provinces, had placed Mr. H. Dupernex on special duty for the same purpose in those Provinces. "In the Punjab," states an official publication, "action was taken by district officers on their own initiative and societies were formed by Mr. MacLagan and Captain Crosthwaite which gave distinct promise of success." In Bengal also, Mr. P. C. Lyon was charged with the same duties in 1902. As a result of these experiments, Lord Curzon, then

Viceroy in India, found it advisable to have special legislation to bring these societies into being in this country. His government accordingly passed into law the Co-operative Credit Societies Act—known as Act X of 1904—and had a registrar appointed in each province to help the formation of such societies on Raiffeisen lines.

Lord Curzon and his advisers were of opinion that the Indian Companies' Act (Act VI of 1882) containing 256 sections, however essential in governing the operations of large industrial and commercial concerns, were not suited to the societies which they desired to propagate. Accordingly, they resolved that "the first thing to be done was to take such societies out of the operation of the general law on the subject and to substitute provisions specially adapted to their constitution and objects. In the second place, it was desirable to confer upon them special privileges and facilities, in order to encourage their formation and assist their operations. And thirdly, since they were to enjoy exemption from the general law and facilities of a special nature, it was necessary to take such precautions as might be needed in order to prevent speculators and capitalists from availing themselves, under colourable pretexts, of privileges which were not intended for them."

"There were two cardinal objects," the resolution continues, "which the Government of India kept in view in framing the present Act. The first was simplicity." Some of the schemes which

Why special Legislation was needed.

The simplicity and elasticity of the Act.

were laid before them were far too elaborate for the comprehension of the classes for whom they were intended, but who certainly could never have complied with their provisions. The second was elasticity. The aim has been to lay down merely the general outlines and to leave the details to be filled in gradually, on lines which the experience of failure or success and the natural development of the institutions may indicate as best suited to each part of the country. So far, therefore, as it deals with the constitution of the societies, the provisions of the Act have been confined to those general principles which all co-operative credit societies must accept as the condition of being permitted to enjoy the advantages afforded by special legislation. There are other matters in respect of which some guidance and some restriction will be necessary; and they have been left to be dealt with by Local Governments in accordance with local needs, in the exercise of the rule-making power which the Act confers upon them. But the Government of India desire to impress upon all Governments that simplicity and elasticity are as essential in the rules framed under the law as they are in the law itself, and that especially in the first instance, and until further experience has been gained, the regulative interference of Government should be limited strictly to essentials, so as to leave spontaneous growth unhampered. Experiment is as necessary within the Province as it is within the

A spontaneous growth of this credit desired by the State.

Empire."¹ Accordingly, the Act laid down broadly the lines upon which these societies were to be formed, and gave power to Local Governments to regulate them by making such rules as they may find absolutely essential from time to time. After seven years of experience in the working of co-operative credit, it was found necessary to amend the law on this subject, and, consequently a new Act—the Co-operative Societies Act (known as Act II of 1912)—was passed into law in that year, the old Act being repealed. According to section 43 of the new Act, Local Governments have power to make rules which regulate the working of societies in each province, and in conformity with these rules the societies frame their own bye-laws.

It is evident that the co-operative movement has been inaugurated in India by the action of the State. Other than the scheme of Sir William Wedderburn in which some public-spirited men joined, no endeavour on the part of the people in this direction was ever noticed. It must, however, be made clear that although the State has initiated the movement and helped it at the outset, as otherwise it would not have taken root among the helpless and illiterate people whom it is meant to assist, the State has no desire to display any duty towards this movement beyond that which belongs rightly to every state

The movement inaugurated by the State.

¹ *Vide* Resolution of the Government of India dated the 29th April, 1904 on Act X of 1904.

with regard to the economic institutions of its people. Of necessity, all societies are formed in accordance with the Law which has in view the introduction of the Raiffeisen system, but as economic conditions vary somewhat in the different provinces, the working of societies vary accordingly and their bye-laws are not the same everywhere. Owing to the extensive area and varying conditions in the country, India will need in course of time more than one system of co-operative credit.

Member-
ship restric-
ted by area
and commu-
nity.

All societies begin work with at least ten members living in the same village or group of villages or in the same town. With the permission of the registrar, societies are also formed in rare cases by 'members of the same tribe, class, caste or occupation.'¹ This extension of the Raiffeisen principle of membership is meant to afford as much ground as possible for the growth of co-operative credit, but, in its application, the State requires the sanction of the registrar for the obvious reason that caste ties, professional brotherhood, or the bonds of kinship cannot help this system of credit so much as a common abode. It would, for instance, be a mistake to suppose that communal feelings could serve the same purpose as the closeness of residence in the working of this credit. We must not forget, in any case, that it is a system which affects the pockets of the poor, and is naturally of the utmost concern to them. Hence it implies

¹ *Vide* "The Co-operative Societies Act (Act II of 1912)" Section 6.

close observation and close protection, and, these are possible only when there is constant contact between the members. Any step which extends beyond this cautious principle of the founder would have to be taken tentatively. As a reason for this extension, it may perhaps be urged that there is a bond of fellowship among members of the same caste and profession. While such a position need not be denied, it is probable also that this fellowship is effectively used by these members only when it is found necessary to protect the interests of their profession, a method which is essentially the same as that of the trades-unionism of the West but somewhat different from that which goes to build co-operative credit. In any case, for the reasons first stated, communal feeling or a commonage of occupation does not seem to be so useful a condition as a common abode in the working of this credit. Experience also favours this view. "Co-operation for credit," observes the Registrar of Co-operative Societies in the United Provinces, "is the first and the most difficult step amongst traders and small artisans, for there is not among them the same strength of communal feeling as exists among the peasants of a village. On the other hand in many localities each member of a trade looks on another as a rival and competitor."¹ Again, communal societies could not enter into a co-operative federation so whole-heartedly as societies

¹ *Life Report on the Working of Co-operative Societies in the United Provinces for 1911-12*, p. 16, Allahabad.

without these distinctions. "The policy followed," continues the same Registrar, "of discouraging caste or sectional societies in villages has borne very good fruit. In the *panchayat* all castes and interests are represented and hostility between caste and caste is disappearing. As a local inspector has reported, a *brahmin sarpanch* has no longer the slightest hesitation in catching hold of the hand of a *chamar* member and securing his thumb impression on the promissory note executed by the latter for a loan."¹

The bases
of liability.

In rural societies, where the members consist mostly of agricultural people, the liability of membership is almost invariably unlimited; but if it ever happens that a sufficiency of mutual trust is wanting in the members or a local magnate whose co-operation is essential will not join except on a limited liability, a rural society can be formed even on this basis with the sanction of the local government.² During 1911-1912, out of 7315 rural societies in India, 7291 had unlimited and only 24 limited liability. In urban societies, where the members consist mostly of artisans and tradesmen, liability is both unlimited and limited. During 1911-12, out of 495 urban societies in India, 264 had unlimited and 231 limited liability.³ When the Act was framed, it is

¹ Report on the Working of Co-operative Societies in the United Provinces for 1911-12, p. 17.

² *Vide* "The Co-operative Societies Act (Act II of 1912)," Section 4.

³ *Vide* "Statements showing progress of the Co-operative Movement in India during 1911-12," pp. 7, 8.

said that both Mr. H. W. Wolff and Sir Frederick Nicholson remarked on the futility of any distinction being made between rural and urban societies, but the Government retained the distinction mainly on the ground that they would need different bases of liability. Although this is merely a matter of classification, the action of the Government was perhaps wiser in this respect, for it is advisable that urban societies should always have the option of both bases. Although the basis of unlimited liability is needed to foster the true spirit of co-operation, it is obvious from the difference in the mode of urban and rural life that the inhabitants of a town cannot know one another so well as the people of a village, and so, urban societies would not always accept this basis. Owing to the extent of this country and its varying conditions, it is possible that societies with the two bases of liability will gradually evolve into two distinct systems of co-operative credit, more or less on the lines of Raiffeisen and Luzzatti.

Only men of good character are taken in as members of societies with unlimited liability, but the character of men is not questioned before their admission into societies with limited liability.¹ Nor was any scrutiny exercised, until recently, over the financial position of men seeking election into societies of the former kind, for it was supposed that such men were not free from the hands of the

The honesty and trustworthiness of members.

¹ Regarding this qualification of membership the Act says nothing, but it is mentioned in the bye-laws of societies.

money-lender. But these societies are now taking personal declarations and making independent inquiries as to the assets and liabilities of such applicants with a view to make sure that they are not hopelessly involved, and to fix their limit of credit, should they be elected. Similar to the *castellato* prepared in Luzzatti banks in Italy, rural societies in the United Provinces now prepare a register—known as the *haisiayat*—which is a record of the financial position of members. Such statements are helpful to all credit institutions, and no banking system ignores the utility of making inquiries about a new person before giving him any loan of money. There could be no other means of ascertaining the trustworthiness of such people. It is needless to say that such information is quite essential to co-operative societies based on the heavier responsibility. Referring to this practice the Registrar of Co-operative Societies in the United Provinces explains clearly its advantages. "The most important work," states this officer, "in rural societies during the year has been the completion of the *haisiayat* or status register for all members. This is a statement giving the area of the land held by a member under different tenures, the rental paid, the cattle and other stock, trees and houses owned by him with their value, and also the debts due by him to the money-lender or to the landlord. * * * A consideration of all these circumstances enables the *panchayat* to determine the maximum credit that should be allowed to a member during

the year. This is then recorded. The figures for all the members of a rural society afford the central society a standard by which to fix the maximum normal credit for that rural society. The register is a great help to inspecting officers in ascertaining whether loans are being properly given. * * * If it is correctly maintained, it will in future be easy to determine the economic progress of a particular individual or village.”¹ The personal declaration by a member of his liabilities is also a commendable practice. It requires truth and honesty from him at the very outset, and thereby reminds him of principles which he is expected to practise always in his dealings with the society. Not only do these societies take in members who are known to be honest and reliable, but by their bye-laws any member who has ceased to be trustworthy is to be expelled. This rule tends to keep a member, who may be inclined to go wrong, within the limits of good behaviour.

The practice of thrift is encouraged in the members who are asked to deposit their savings with the societies. Their means at present are so limited, that if they could be taught to avoid extravagance in the performance of some of their social and religious ceremonies, there would be a good beginning in this direction. “That the village societies,” reports the Registrar of Co-operative Societies in Bengal, “discourage unnecessary expenses for cere-

Thrift an
essential
virtue.

¹ Vide Report of the Working of Co-operative Societies in United Provinces for 1911-12, pp. 2, 3.

monial purposes is a proved fact. A member of a society is not encouraged by his villagers to give extravagant feasts on the occasion of marriages and *sradhs*. Formerly, he had to borrow money for ceremonial purposes in order to stand well with his co-villagers. The co-villagers now find that they are also responsible for his debts, and if he is unable to repay the loan, they shall have to make good the loss. Instead of being encouraged to spend money, he is restrained by the influence of village opinion to curtail his expenses according to his means."¹ This correction of a time-honoured but pernicious custom may be looked upon as a step towards social reform.

Punctuality required in repayment.

Punctuality in the repayment of loans is enforced by the bye-laws of every society which inflicts a penalty in the shape of enhanced interest on defaulting members, unless repayment is delayed owing to a bad harvest, in which case the periods of repayment are generally extended by the societies. The question of the steps which should be taken, in the event of failures in this respect, was discussed in the 6th Indian Co-operative Conference held in 1912. Some of the registrars were of opinion that enhanced interest was the best means by which punctuality could be assured while others thought that although such a penalty should be attached to these failures, it should not be enforced if an earnest endeavour was made to

¹ *Vide* Report on the Working of Co-operative Societies in Bengal for 1911-12, p. 15.

repay on due date and if the security continued to be good, but that renewals of loans should be granted in such cases. With respect to these failures, the Conference was of opinion that in future the societies have to exercise their discretion and treat each case on its own merits; and so, it is reported in the proceedings of this Conference that "the sense of the meeting was that re-loans or renewals might be given, but that they should be given sparingly, and that they should not be given unless good excuse existed and the security remained sufficient."¹

While the best attempts are being made to inculcate the principles of honesty, thrift, and punctuality in the members, we must not fail to see that the practice of these principles becomes often a question of resources with the poor, and consequently, that members who have no idea of domestic economy have to be taught how to live within their means. These qualities may also be fostered by holding before them the maxim of Luzzatti—*la grande riputazione di onesta e di solidità*—which has helped to uplift the people of the country who were as poor as the Indian community only half a century ago. It is all the more desirable that our people should have faith in this maxim, as otherwise they would not be able to proceed with any feeling of enthusiasm upon a course

The need
of education
and maxim.

then

¹ *Vide* Proceedings of the 6th Conference of Registrars of Co-operative Societies in India, 1912, pp. 13, 14.

of conduct which alone can establish confidence, the real basis of credit.

The organization of capital.

When a co-operative society is formed, it cannot immediately get the confidence of the financial market and so obtain money to lend to its members. To attract such capital, Raiffeisen had to personally subscribe 6000 marks to his society, Schulze had to sell shares to his members, although they need not have been expensive, and Luzzatti had not only to issue shares but to establish the reputation of his bank, its liability being limited. The societies in India have been more fortunate, being assisted by the State with loans, the further issue of which has been stopped only recently. Of course, before getting this aid, they had to make a stand by their own efforts. So, rural societies in this country generally issue shares in provinces where they experience difficulty in raising loans, but where such difficulty is not felt, only an entrance fee is charged. There are exceptions, however, to these general practices and societies have sometimes to resort to both methods of raising capital in almost every province. Then the savings deposits of members gradually add to the funds. Of course, when a society is established, finds no difficulty in getting loans from the financial market. The annexed table will show how rural societies with unlimited liability stood with regard to capital in the year 1912.¹

¹ Vide "Statements of the Co-operative Movement in India 1911-12, p. 17, issued by the Government of India."

PROVINCE	Share payments	Entrance fees	Deposits by members	Loans from the State	Loans from other sources
	Rs.	Rs.	Rs.	Rs.	Rs.
The Punjab ...	5,45,582	18,477	7,12,714	...	12,49,889
Burma ...	1,25,128	100	10,998	1,72,085	5,62,594
United Provinces ...	1,05,459	553	65,883	...	24,40,105
Madras ...	86,568	15,374	1,15,590	...	12,55,859
Bengal ...	13,488	5,854	1,71,541	27,063	4,54,541
Bombay ...	...	7,004	1,66,774	48,450	6,98,543
Bihar and Orissa ...	4,520	3,313	26,738	3,936	96,121
Central Provinces ...	360	1,916	20,490	...	2,79,946

Shares in
societies with
unlimited
liability.

An examination of this table shows that in the Bombay and Bengal Presidencies these societies follow the original plan of Raiffeisen and issue no shares, the societies in Bengal doing so only in a few cases.¹ But, it will appear that in the other provinces, according to the later Raiffeisen practice, rural societies do issue shares. The sale of these shares, however, is strictly regulated by the byc-laws of such societies, so as to prevent individual members from acquiring any unusual influence. Generally speaking, a member takes only one share, the value of which is Rs. 10 and which is payable by ten annual instalments of one rupee. "After ten years, members will be at liberty to withdraw their subscribed share-money," but from "the profits which have accrued, after deducting 25 per cent for reserve, the balance will be allotted to members in the form of shares. * * * After the eleventh year a dividend will be paid yearly."² An entrance fee, which varies between four annas to a rupee in these societies, is also paid by each member. This system originated in the Punjab, and has been adopted with modifications in the United Provinces, Burma, and other parts of India.³ A few rural societies in Bengal have adopted a different system of shares, as a means of 'compulsory deposits,'

¹ It is somewhat significant that the Presidencies of Bengal and Bombay also display the greater portion of the industrial capital used in India.

² *Vide* Proceedings of the 5th Conference of Registrars of Co-operative Societies in India held in 1911, p. 13.

³ *Vide* *Ibid*, p. 13.

apparently after the system of Schulze. In these societies, each member takes up "at least one share of Rs. 50 or Rs. 100 payable in five or ten annual instalments."¹

As a matter of course, all societies with limited liability issue shares, and to prevent speculators from getting into such societies, the Law does not allow a member to hold more than one-fifth of the share-capital of his society. Nor must this portion exceed Rs. 1,000 in value, a limit which the societies by their bye-laws further reduce.² The limit of these societies, in fact, varies with their demand for capital, as it is not only desirable that speculators should be kept out, but, in some places, that capital should be made to flow in.

Shares in societies with limited liability.

While the issue of shares is regulated, it also appears that the well-to-do in a society find it difficult to have a monopoly of power, for the Law provides that in societies with unlimited liability each member shall have only one vote, and, that in societies with limited liability the bye-laws shall restrict the voting powers of members.³ To prevent speculation in societies with unlimited liability, the Law further lays down that no member shall transfer his share unless he has held it for atleast a year, and that should he do so after this period, he must sell it in accordance with the co-operative principle to another member or to the society.⁴

Voting powers of members.

¹ *Ide* Report on the Working of Co-operative Societies in Bengal in 1911-12, p. 11.

² *Ide* Act II of 1912, Section 5.

³ *Ide* *Ibid*, Section 13.

⁴ *Ide* *Ibid*, Section 14.

The limitation of dividends.

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As the majority of co-operative credit societies in this country issue shares, their plan and practice with regard to dividends may now be examined. In societies with unlimited liability, no dividends are paid to members and all profits are carried over to a reserve fund. Their scheme is that after this fund has attained a reasonable proportion of the liabilities of the society, a portion of the profits may be paid out annually as dividends, the idea being to build up a reserve first and to pay out dividends later. This plan has also been confirmed by the new Act, which prevents any dividends being paid in these societies "without the general or special order of the local government in this behalf."¹ In most parts of India, dividends will not be paid in such societies until the eleventh year of their existence, and even then in the United Provinces "dividend on fully paid up shares, that is, after the lapse of ten years, is limited to ten per cent."² In societies with limited liability "after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or bye-laws."³ Previous to the passing of this Act, registrars had

¹ *Vide* Act II of 1912, Section 33.

² *Vide* Proceedings of the 5th Conference of Registrars of Co-operative Societies in India, p. 13.

³ *Vide* Act II of 1912, Section 33.

reported a few instances of societies of this type allowing by their bye-laws dividends as high as 18½ and 20 per cent, and, consequently, of the tendency of such societies to sell their shares at a premium. It was decided, therefore, in the 6th Indian Co-operative Conference that dividends should be limited by the rules of the local government.¹

The limitation of dividends should help a society in the formation of a reserve fund, which not only signifies the exercise of an economic principle—that of providence which is materially nothing more than the provision of capital—but helps to improve the faith of financiers in the ability of the society to repay its debts. While the practice of ethical principles, such as those of honesty, trustworthiness, and self-sacrifice, serves as a moral guarantee for the fulfilment of obligations, the exercise of providence, when directed towards the formation of a reserve, places a material guarantee before the financial market, similar to the security which a joint-stock bank furnishes by the existence of its reserve. Hence, in co-operative societies providence helps materially to establish confidence which is the basis of credit. All societies in India with unlimited liability are building up a reserve fund which is practically indivisible. The system generally followed for this purpose is that of the Punjab, a description of which will convey an idea of what is being done elsewhere excepting the

The reserve fund.

¹ *Vide* Proceedings of the 6th Conference of Registrars of Co-operative Societies in India held in 1912, p. 28.

Presidencies of Bengal and Bombay. "When the bank has been in existence for ten years," describes the Registrar in the Punjab, "and the share instalments have been fully paid up, members will be able to withdraw their shares, if they wish to. The profit earned, however, is not withdrawable, but will, after putting one-quarter to reserve, be apportioned among the members according to their shares and credited to them as a non-withdrawable share, on which in future a yearly dividend will be paid. Members who do not wish to withdraw the share they have subscribed will be allowed to add it to their non-withdrawable share, or they may keep the sum in the bank as a deposit."¹ In the Bengal and Bombay Presidencies, the fact that no shares are issued by societies with unlimited liability, does away with the question of dividends, and all their profits naturally go towards building up a reserve which is also indivisible. In societies with limited liability, at least a quarter of the net profits are carried over annually to a reserve fund. This fund is held in every society principally as a guarantee for the repayment of its loans and as a source from which unforeseen losses may be recouped, so that the society may be assured against the chances of bankruptcy.

The investment of this fund.

The reserve fund possessing certain definite functions, it follows that in the investment of this fund, security should be made the first object, avail-

¹ *Vide* Report on the Working of Co-operative Societies in the Punjab for 1912, pp. 5, 6.

ability the next, and profit the last; but, in no case, should this fund be allowed to undergo the risk of being utilized in the business of the society. Such a course would be against the practice of banking. It could not, for instance, be argued that because the fund is small, it does not matter much whether it undergoes a risk or not. Nor could it be urged that by helping the working capital, it would increase the profits, and so improve its own position more rapidly. If the fund is small, its aid to the working capital will be small, yet the risk will be there and will increase in proportion to the impatience that is displayed. Possibly, certain societies which have a sufficiency of confidence in the security of their operations would not hesitate to place their reserve fund at the disposal of their working capital, but the very fact of a reserve becoming invisible would lessen the credit of the society in the financial market, and it must be remembered that there is nothing so infectious as discredit. Moreover, the security of their operations at present may be due to circumstances which will alter after a time. And, it cannot be said that these societies have already established their credit, for this has yet to be tested by their continued course of conduct and method of management.

A society does not lend money to anybody but a member who has paid in his dues, but when it can afford it may also lend to another society with the permission of the registrar. As

The security of loans.

the basis of credit in societies with unlimited liability is made up of the full responsibilities both material and moral of the corporate body, loans are granted in such societies on promissory notes merely, and the security of moveable property—such as jewellery—is not taken except with the consent of the registrar.¹ Material securities are, however, taken in societies with limited liability where the material and moral responsibilities of members are limited. The mortgage of immoveable property can be accepted by any such society, but it appears that a mortgage is taken only when it becomes necessary to prevent mortgaged property, belonging to a member, from passing into the hands of a money-lender, and when the society can afford to give against the property a loan for a long period which such a transaction must necessarily imply. But as co-operative credit societies are not meant to handle mortgages either by their principles or their constitution, the Law lays down that “the Local Government may, by general or special order, prohibit or restrict the lending of money on mortgage of immoveable property.”² Nor was it ever intended that these societies should grant loans on the security of standing crops than which perhaps no form of guarantee is more insecure. But owing to the system of barter which still obtains at least in backward rural tracts in India,

¹ *Vide* Act II of 1912, Section 29 (2).

² *Vide* *Ibid*, Section 29 (3).

these societies are expected to place "agricultural produce on precisely the same footing as money for all purposes of subscription, deposit, advance, payment and recovery."¹ If compared to the decision regarding standing crops, no objection could be taken to this practice, as there is an important difference between such crops and agricultural produce. The former may be regarded as future wealth but the latter is present wealth easily convertible into money.

The maximum limit of loans to members is fixed by some societies in their bye-laws, and by others at their annual general meeting. The bye-laws of rural societies have fixed this limit for individual members to Rs. 500 in the Bombay Presidency and to Rs. 500 and Rs. 200 in large and small societies, respectively, in the Madras Presidency. It had become necessary to fix this limit owing to the selfishness in some societies of influential members who, at the commencement of this movement, were in the habit of helping themselves to nearly all the capital available for loans, leaving practically nothing for the poorer members. Atleast, in one instance, it was reported for this reason that "the working of the society practically stopped until it was wound up after a third or fourth inspection." All societies borrow money from outsiders up to a fixed limit, but they accept savings deposits up to any extent from their members. According to

The restriction on loans.

¹ *Vide* Resolution of the Government of India, dated the 29th April 1904, on Act X of 1904, p. 5.

Withdraw-
al of State
subvention.

the Resolution on Act X of 1904, a rural society is liable to get, within three years of its registration, a subvention from the State in the shape of loans of Rs. 50 at a time, provided that these amounts are only equivalent to the paid-up capital of the society and that in all they do not exceed Rs. 2000. No interest is charged by the State on these loans, nor are they repayable during the first three years of the society's registration, but after this period they bear interest at the rate of four per cent per annum and have to be repaid by ten equal annual instalments. As declared in the aforesaid Resolution, the State realises "the danger of obscuring the co-operative principle" by lending from State-funds, and so it has recently commenced to withdraw this support.

The rates
of interest.

We have seen at the beginning of this chapter the ruinous rates of interest that borrowers had to pay to money-lenders before the introduction of this credit in India. If we now compare these rates with those that borrowers have paid since the advent of this credit, we shall find a substantial reduction. At the commencement of this movement, the rates of interest prevalent in these societies were as follows :

On loans given to members, interest at $1\frac{1}{2}$ and 2 pies per rupee per month or $9\frac{3}{4}$ and $12\frac{1}{2}$ per cent per annum, that is, an average rate of 11 per cent approximately throughout India was charged by societies. On loans taken from outsiders, interest varying from 4 to 9 per cent per

annum or an average rate of about $6\frac{1}{2}$ per cent throughout India was paid by societies.¹ On deposits taken from members, interest varying from 3 to 9 per cent per annum, or an average rate of about 6 per cent throughout India, was paid by societies.² Since the year 1906, no statistics showing these rates appear to be available.

The gratuitous service of members—excepting that of the accountant—has probably been for centuries an established custom in Indian joint-villages, and its continuance is only natural in co-operative societies. Accordingly, the State did not think it necessary to refer to such service in the Act. This custom is, however, very strictly regarded in societies throughout India. Generally, in societies where the work is heavy or no member is able to keep the accounts, a *patwari* or paid accountant is employed, but where the transactions are few and a member can keep the books, his services are obtained gratuitously. In the best interests of co-operation, it is very desirable that this spirit of self-sacrifice should be always maintained in these societies.

Gratuitous service.

The registrar or somebody deputed by him inspects the accounts of every society in his province atleast once a year. When the registrar

The inspection of accounts.

¹ In these figures it does not appear whether loans from the State, which bear no interest for the first three years, were considered or not. If these were not considered, then the rate would be lower than $6\frac{1}{2}$ per cent.

² *Vide* Report of the 1st Conference of Registrars of Co-operative Societies in India held in 1906, p. 6.

himself is unable to do so the accounts examined by his deputy are passed by him. This official audit is free and compulsory. An object of this audit is to inspire the confidence of members as well as of the financial market in the integrity of these societies and so help to establish their credit.

The bye-laws of societies.

The principles, we have now reviewed, are embodied in the bye-laws of each society as far as possible, but the latter vary according to the needs and circumstances of members in the various provinces and also according to the type of society—rural or urban. They are generally found to be something like the following :

1. A loan is granted only to a member and to the extent that it would be within his means to repay. This limit is usually fixed at about Rs. 200 in small and Rs. 500 in large societies.

2. A loan is not given except against a promissory note or bond executed by the borrower. If the loan is so small, that it is amply covered by the borrower's share or savings deposit, security is not always required, but in most cases one or two personal sureties are taken.

3. Small loans have the preference over big loans. The former are made payable after the nearest harvest, that is, within six months; the term of the latter extends usually to three years, but instalments against such loans are payable at each harvest.

4. Loans are issued generally for the liquidation of debts bearing usurious rates of interest and for the purposes of production by agriculture, handicrafts and trade.

The bye-laws of certain societies further permit the granting of loans for expenses of marriage, funeral and other ceremonies, but such loans are very judiciously granted.

5. A loan is granted for a specific purpose and is forthwith recalled if not utilized for that purpose.

6. Instalment and interest on loans are paid on due dates, unless such dates are deferred by the society owing to a bad harvest.

In certain parts of India, defaulters are charged an enhanced interest by way of penalty, which in Mysore was for a time half the actual rate of interest. In other localities, such as in the Madras Presidency and in the Central Provinces, loans not paid on due dates are renewed, provided the security remains good. In the Central Provinces, such loans are recovered through the civil courts if the security deteriorates.¹

7. Each member has only one vote.

This rule is found in all societies with unlimited liability, being in accordance with the Act.

8. Members have the power to expel any member whom they have ceased to trust.

¹ For a summary of this question, refer to the paragraph on punctuality in p. 114.

The principles which govern the constitution, management and working of societies are also embodied in these bye-laws.

The constitution of societies.

All rural societies are constituted on a democratic basis as their supreme authority is vested in the general assembly in which all members rich or poor have the same voice on the principle of 'one man one vote.' When a rural society is formed, the members assemble at a general meeting and elect a *panchayat* or council of management consisting of a minimum of five and a maximum of nine members who are often selected from the best-to-do in the society. Sometimes the ablest men come into this selection. Then, from the *panchayat* one is elected the president, another the secretary, and a third the treasurer or accountant. A separate 'council of supervision' consisting of a minimum of three members is also elected in societies which have learnt to work without the supervision of the registrar's staff or have no such duties performed by the *panchayat*. As service is gratuitous in all societies, efficiency of work could not perhaps be secured without the division of labour by the existence of two councils in every society. The period for which these two councils are elected is generally a year.

Duties of the general assembly.

The general assembly meets atleast once a year, and, in some provinces twice a year usually after a harvest. Its chief duties, besides the election of members for the two aforesaid councils, are to confirm the election of new members, to examine

the balance-sheet of the society, to limit the amounts to be lent to members and to be borrowed by the society, to fix the rates of interest on loans and deposits, to consider the inspection reports of the registrar, and to hear and take action upon any complaint that may be made against the two councils.

The council of management meets atleast once a month—generally on the day of the full moon—and oftener when necessary to transact the regular business of the society. The duties of this council are to deal with applications for loans, to issue and recover all loans to borrow and repay money on behalf of the society, to keep savings accounts with members, to elect new members, to examine the books kept by the accountant, to check the cash-balance in the hands of the treasurer, to prepare a balance-sheet of the society's transactions yearly or half-yearly, to take action upon the report of the supervisors, to see that the members adhere to the bye-laws and generally to conduct the business of the society.

Duties of
the 'pancha-
yat.'

Up to the present day, few rural societies in India utilise the services of supervisors, but when they are employed, their duties are to see that loans are applied to the purposes for which they are taken, to report to the *panchayat* cases of the misapplication of loans, to inquire from time to time into the financial position of borrowers, to report to the *panchayat* any case of deterioration in this respect, to check occasionally the cash-

Duties of
supervisors.

balance in the hands of the treasurer, and generally to keep an eye on the material and moral condition of the members.

The federation of societies.

When Co-operative societies came into existence in India, they began to feel like the Raiffeisen societies in Germany the need of a greater co-operation, and so after the manner of the Raiffeisen federation, they have begun to form unions of their societies. This organization has in view the two-fold purpose of the founder's system, and, consequently, two distinct methods. By the one method, societies are being centralized into 'unions' with the object of having facilities for supervision and control; by the other societies are being united into 'banks' for the purpose of balancing funds and of obtaining finance by increased credit. "As regards the relative value of a central bank and a union," says the Registrar of Co-operative Societies in the Punjab, "the former is usually of more use for the supply of money during the first year of co-operative work in a district; later on, unions are more valuable as organizations, inasmuch as they are purely co-operative and more sympathetic in character. Experience shows that there is no reason why both should not exist together harmoniously in the same district. Whether one or the other or both should be started depends on the circumstances of each district."¹ It may now be observed that the two methods of

¹ *Vide* Report on the Working of Co-operative Societies in the Punjab for 1912, p. 4.

organization, unions and banks, are based on limited liability. Unlimited liability could not possibly be used as the basis of a federation, for the obvious reason that societies—which form almost entirely the units of federation—cannot know one another in the same way as the members of a society.

Its
liability.

The details of this scheme of federation were explained by a sub-committee appointed to consider this subject in the 5th Indian Co-operative Conference, and, the following extracts from the proceedings of that Conference may be recorded. "The societies have formed themselves into unions, the object of which is to create by co-operation greater confidence. The union is confined to a circle equal perhaps to an area of four or five districts in this country. The object of the union is to take common counsel, to discuss questions of common interest, to teach co-operative principles and keep them pure, and to affix a hall mark on affiliated societies, which adds much to the confidence felt by the public. Bad banks are excluded and the general standard is raised. The unions are divided into sections (or sub-union sections dealing with small areas) each with its own committee and these sections inspect the societies within them on behalf of the union. Each section employs an inspector and the area is not larger than such an inspector can personally control. The section charges a fee for each inspection to defray the expenses. The German law like the Indian compels societies to submit to inspection, but the Law permits inspection

Details of
the scheme.

by officers appointed by recognized bodies of which the union is one."

Distinc-
tions suggest-
ed.

"Where the societies have a central bank of their own, that is, a central bank in which they themselves hold all the shares, the delegate to the central bank and the delegate to the union are frequently one and the same person, and consequently the two bodies really become closely connected. The central bank fully understands the value of the union's inspection and in all its transactions trusts implicitly to it. There are cases where the central bank is an outside body, but there too the value of the union's hall-mark is appreciated and the central bank lends almost entirely on the union's recommendation. The union itself, however, has no financial constitution nor does it guarantee the financial transactions of any society. * * * The sub-committee are of opinion that the two questions (*a*) *finance* (*b*) *control and supervision* should be separately dealt with. With regard to *control* they are of opinion that if the movement is to be made a success, the societies must co-operate with each other for their mutual benefit in the same way as individuals co-operate in societies. The object of such co-operation will be to take common counsel, to discuss questions of common interest, to teach co-operative principles, and to so maintain these principles pure in the affiliated societies that the fact that societies belong to the federation will affix to them a hall-mark of sound co-operation. To accomplish this end the

societies must submit to an inspection of their accounts and working by the representative body."

"The sub-committee are further of opinion that this body may without objection be united with a central bank provided the share-holders of this bank are the societies themselves, and they are inclined to agree that this principle should be followed even where a few individual share-holders are introduced into the central bank with the object of securing better management. Where, however, the central bank is a joint-stock concern, the share-holders of which are individuals and not societies, or in which the individual share-holders predominate, there should be a union of societies distinct from the central bank. Several members of the sub-committee expressed the opinion that the union as such should have no financial constitution and should not make itself responsible in any way for the debts of affiliated societies; but inasmuch as three provinces—Madras, Central Provinces and Burma—have organized unions which do not finance but yet guarantee, they consider that it would be well to await the reports of these provinces on the working of unions of this kind during the next year before passing any definite opinion on the subject."

Experi-
ments to con-
tinue.

"With regard to finance, the sub-committee agree with the finding of the 3rd Conference that central banks registered under the Act should be organized as joint-stock companies with limited liability. The share-holders should be the societies

The scheme
of finance.

alone and the central banks should exist wholly for the benefit of their share-holders and should make loans only to societies which are share-holders. Where, however, it is impossible owing to the backwardness of the people to obtain the necessary business management, there is no objection in the first instance to admitting a small number of individual share-holders, but loans should not be made to such individuals."¹

Audit and
inspection.

The objects of this federation will now appear to be the same as those of the Raiffeisen union in Germany, and, it also appears that the most suitable methods are being adopted by this federation to reach its ends. It is doubtful, however, if the audit and inspection of societies could be placed entirely under the control of unions and banks recently formed. The subvention of the State may be withdrawn, but State control over audit and inspection should continue for a few years in this country where confidence which is the basis of credit arises partly out of the hand of the State in this movement. Even in Germany and certain parts of Europe, where the sources of trust are in the people, the State recognizes the duty of a direct control over audit and inspection.

Progress of
this move-
ment.

We shall now see how remarkable has been the progress of this movement in India, as compared to the growth of co-operative credit in Germany. In Chapter II we have observed that within nineteen

¹ *Vide* Proceedings of the 5th Conference of Registrars of Co-operative Societies in India, pp. 18—21.

years of its origin only four societies were formed by Raiffeisen in his own country. The following table will show the position of this credit in India during the year 1911-12 which was eight years after its introduction here.¹

Societies	Their number	Number of members	Working capital	Profits of the year
			Rs	Rs
Unions and Banks	120	11,361	107 $\frac{3}{4}$ lakhs	2,05,183
Urban Societies...	495	67,097	53 $\frac{1}{2}$ „	2,44,370
Rural Societies ...	7,562	324,860	182 $\frac{1}{4}$ „	6,27,689

It appears that the success of co-operative credit in this country has so far been due in no small measure to the efforts of successive registrars in the provinces. But the future of this institution, which should form an important section of the Indian economic structure, as joint-villages were for centuries, will depend upon the trust which the financial market can have in the management of these societies and upon the limit which their members can put to their natural selfishness.

¹ Refer to *Statements showing progress of the Co-operative Movement in India, 1911-12*, pp. 1-3.

CHAPTER IX

CREDIT IN EVOLUTION

Transport and communication have led to an extension of exchange.

DURING the nineteenth century the development of means for transport and communication, resulting in an extended system of exchange, has led to a feeling of trust among men which they have found essential in their business transactions. This feeling has infected all classes—producers and consumers, employers and employees, merchants and traders, bankers and depositors, landlords and tenants—since it has enabled them to transact business with one another, overcome difficulties and improve their wealth which they could not do individually. In fact, it has been realized in modern times that the growth of human welfare is due not merely to individual effort but also to the interdependence of men which is a complex and world-wide process sustained by the spirit of trust.

An extended system of exchange has improved our knowledge of human conduct.

Previous to the introduction of the railway, steamship, postal and telegraph services, commerce or exchange was in an undeveloped stage and men were comparatively ignorant of the conduct of their fellow-beings. It was then customary for each individual to safeguard his wealth by secret hoarding or by personal employment. Gradually people began to know more of one another's actions and to exchange goods and services rather freely. This led them to have more confidence among themselves

and to entrust one another with wealth which they could not themselves utilize. So, when they were unable to employ their savings in personal undertakings, they began to invest them as the working capital of governments, municipalities and joint-stock companies. Then they learnt to deposit their savings with bankers and to lend them to private individuals with or without material guarantee. All this trust in the conduct of reliable men has at last created a special machinery by which the wealth of advanced communities is expanding very rapidly compared to its restricted growth in the past.

Now, the machinery founded upon this spirit of trust is no other than the credit system, and, if we had to state precisely how this system has arisen, we should say that, although it had its germs in the moral and material propensities of men, it has evolved principally out of the facilities afforded by transport, communication and commerce. The existence of money has also played an important part in its evolution and it is evident that the institution of banking has made it an organized system, as we shall see gradually. But it is improbable that any processes, other than those which have helped men to know and to develop one another's conduct in business, could have contributed so largely towards the evolution of credit. We observe, for instance, that the germs of this credit existed in the ancient and middle ages—the lending of cattle, food-stuffs, and even money, generally for purposes of consumption, being

Confidence
between man
and man is
due to this
knowledge.

The rise of
the credit
system.

a practice among people living together—also, that money of the metallic type at least had been in use at the same time, but no great and useful system evolved out of these germs during those centuries. Yet when facilities came into existence in modern times for men to become widely acquainted with and to improve upon one another's conduct in business, credit developed with the help of money and banking into an extensive and intensive system which has proved a great help to production. Have we not seen also that co-operative credit would not have originated without its germ of unlimited liability, a method which could not begin without the members of its organizations knowing one another's character? It was essential, therefore, that men should have improved their knowledge of human conduct before confidence could arise between man and man, and, without some mechanism by which this confidence could be utilized in business, credit was not developed into a system.

Credit is a
process in the
exchange of
wealth.

Credit is a process in the exchange of wealth based on confidence. Its process is observed in economic life but its basis of trust dwells in the mind. This trust consists in the belief which a lender has in the reliability of a borrower or in the confidence which a borrower obtains from a lender. In the former sense, the lender is said to 'give credit' and in the latter the borrower is said to 'have credit.' Yet to utilize credit does not constitute an essential agency in the production of wealth. Nature, labour,

and capital are the essential agents of production, but these work in various forms, methods, and stages. Now, credit is only the method which exchanges money or goods, that is, present wealth, for a promise to get on a future date its value which is future wealth. Credit is also used to obtain labour on the understanding that its value will be paid on a fixed date. These being its primary functions, credit has been defined as "the exchange of present wealth for future wealth."¹ Hence, the real place of credit in economic life is in the exchange of wealth, and we have already seen that credit has evolved out of the same formative influences as the system of exchange, although it is an advanced stage in this system.

The history of credit shows that in the ancient and middle ages loans of cattle, food-stuffs, and money were given to neighbours usually for purposes of consumption and not with the object of helping production or with any definite knowledge that this object was attainable to any degree. It was for this reason that interest on money so lent was condemned as usurious by moralists and the canon laws.² Particularly in the middle ages, St. Thomas

Originally
credit was
used for con-
sumption.

¹ Vide Gide's "Principles of Political Economy," (1912) p. 356.

"A credit transaction," says Professor Ely, "is a transfer of goods, services, or money, for a future equivalent."—Vide "Outlines of Economics" by Ely, Adams, Lorenz and Young (1912), p. 243.

² What is now understood as 'usury' was denounced not only by the canon laws of the Christian Church, but also by the codes of the Hindu and Mahomedan Religions. Adverse allusions to usury are made in the *Dharma Shastras* of the

Aquinas and the canonists failed to see how any hire could be paid for wealth that was consumed apart from the return of its value. Probably, the canonists argued on economic grounds no less than on ethical principles, for, according to our modern *productivity theories*—however incomplete these may be—interest on money could not be conceived unless money was productive, just as wages could not arise if labour was unproductive. To understand their objection, we must also realise that the canonists were conscious of the economic conditions of their day, namely, that loans of money were very scarcely utilised for productive purposes, but that land and other natural products served generally as the materials of production. It is true that in their day, capital was utilised in a more elementary condition than it is at present, and that productive wealth had not developed to its present position where it is centred more or less in money. At the same time, production was not carried on to such a vast extent as it is in modern times, and money lent on trust—that is, monetary credit—was rarely used for such production. As we have already seen, credit was then used generally for purposes of consumption. Gradually people found that in order to utilize trust in business transactions, atleast to give loans as an aid to production, future wealth could not be ignored, and that some value should be

Modern credit usually aids production.

Hindus, and the Code of Manu prescribed a rule against it known as *dandūpat*. Mahommed also directed certain regulations against usury which are mentioned in the *Koran*.

placed on it. So, from these considerations credit instruments were devised, and, since then credit began to be used as a process to help production. Here we also realise that, besides the means of transport and communication, the introduction of credit into purposes of production has brought about a new environment for credit and helped its evolution to no small extent. It is also very probable that credit in production has certain features distinct from credit in consumption which have not been specially ascertained as yet.

There is scarcely any doubt that credit, in its present advanced form, is a process in the system of exchange which dates since the appearance of credit instruments, and that all the functions of credit are not yet known, just as all the functions of electricity have not yet been ascertained, because neither of them has been observed under all its possible conditions of existence.¹ John Stuart Mill, observing the misconceptions that existed in his time on the subject of credit, makes the following statement: "It seems strange that there should be any need to point out, that credit being only permission to use the capital of another person, the means of production cannot be increased by it,

The appearance of credit instruments.

¹ As compared to physical conditions, economic circumstances seem more difficult to study, because the physicist may experiment at will in his laboratory, whereas the economist has to patiently observe or actually experience conditions in business life, for there is no laboratory for the economist except the business world. Moreover, the physicist, the chemist or the botanist deals with more concrete conditions than the economist can expect to do.

The views
of Mill on
credit.

but only transferred." He further says that "credit is but a transfer of capital from hand to hand."¹ Although it appears that the functions of credit, as we have already seen, are merely to exchange wealth and not to increase it, it is obvious that these functions produce utilities.² So that while credit in itself does not produce wealth, the process gives rise to utilities that contribute towards the growth of capital, a result which is largely observed in the business world and admitted by many recent writers. If we now examine carefully the statement of Mill, we shall see clearly the inference that as credit in itself is not capital, it cannot add to the means of production which capital possesses. But by saying that "the means of production cannot be increased by it, but only transferred," he could not have implied that the means of production or the functions of capital so transferred would cease to operate by the mere change of hands. On the contrary, we find from experience that debtors generally utilize capital more productively than their creditors, since they pay interest and yet profit by their credit transactions. Obviously, the difficulty of understanding the utilities of credit in production existed even in the days of Mill.

Since credit instruments have come to possess exchange value, that is, since they can usually

¹ *Vide* Mill's "Principles of Political Economy," Book III, Chap. XI, § 1 and 2.

² It is well known that credit satisfies certain economic wants which are its utilities.

be exchanged for money, and, as money owing to its universal exchangeability represents all forms of capital, credit is often identified with capital. Henry Dunning Macleod, a very exhaustive writer on credit, appears to have had this misapprehension.¹ But credit is not capital, since it is merely a process by which capital is obtained for a time. Of course, a credit instrument may be looked upon as a representative of capital, but the fact that the creator of the instrument does not become the permanent possessor of the capital it represents is a proof that credit is not capital.² If we regard credit in the subjective sense, that is, as confidence in the mind of the creditor, it is abstract. If we look upon it in the objective sense, that is, as a process in the business world, then also it is abstract. Now, how can credit which is entirely abstract be the same as capital which is essentially concrete? Even if we admit the new concept of capital, so ably propounded by Professor

The confusion between credit and capital.

¹ "Moreover, we see," observes Mr. Macleod, "how completely Mill is in error when he says that credit is never anything else than the transfer of capital. Credit is used to an enormous extent to purchase labour just as money is, and credit is also used to an enormous extent to purchase other credits. * * When nearly forty years ago, we said in a former work that credit is capital, there was a shout of scorn and derision from many writers in England and France."—*Vide* Macleod's "Theory of Credit," pp. 355 and 357.

² The debtor or borrower must always be regarded as the creator of a credit instrument. The debtor makes out the instrument in the case of a government note, bank-note, bond, and promissory note. In the case of a bill of exchange, the debtor directs the creditor to draw up the bill which he then accepts. Only in the case of such bills payable at sight, the debtor's acceptance is not needed, but without his direction no bill of exchange can be drawn.

J. B. Clark—that capital is a kind of abstract fund, a draft of value on society, which is readily convertible into concrete commodities—we must realise the differences between credit and capital. It would be needless to enter into a discourse on this subject which has been very clearly exposed by some recent writers.¹

A definite
concept of
credit.

There seems, however, a need to designate more clearly than is usually done certain forms of credit which are to be met with in the present system of exchange. Unless this clearness is attempted, confusion is apt to continue with regard to the credit system. It is first necessary to have a definite concept of credit before we can use it as a standard

¹ "Mr. Macleod has acquired some distinction," observes Professor Gide, "as an advocate of the theory that credit instruments are real wealth, true capital. * * Credit instruments unquestionably possess exchange value, and would therefore fall under the head of wealth. But his definition is wrong. If every credit instrument really constituted wealth, it would be possible to double the wealth of any community by simply having each citizen lend his estate to his neighbour in exchange for a note."

"Mr. Macleod maintains that these instruments at least represent *future wealth*. This is true and exactly what we have said; but the very fact that they are *future wealth* makes it illegitimate to count them as *existing wealth*. When they have become present wealth, they will be counted. Until then there will always be this important difference between present and future wealth: the former *exists*, whereas the latter does *not exist*. * * Professor Leroy-Beaulieu remarks that Macleod's theory is like maintaining that whenever a person is reflected in a mirror, there are two persons instead of one."—*Vide* Gide's "Principles of Political Economy," (1912) pp. 364-367.

"It must be clearly asserted at the outset," says Professor Scager, "that credit is not capital. It may enable the person who enjoys it to secure capital. It may even, to the extent that it serves equally well as the medium of exchange, take the place of capital in the form of standard money. But it is not itself capital. Nevertheless, interest is paid for its use for exactly the same reasons that it is paid for the use of standard money."—*Vide* Seager's "Introduction to Economics," (1907) pp. 333, 334.

among its existing forms. Credit on the part of the lender is based on trust resulting usually from the solvency and honesty of the borrower, and, on the part of the borrower it implies a promise to repay on due date. Apart from the promise of the borrower, his solvency and integrity operate as securities in the mind of the lender. Now, the solvency of the borrower is determined either by his personal or impersonal assurance, the latter being usually a collateral security implying the pledge of a credit instrument of somebody more solvent than himself—that is, the stock, debenture, bond or bill of a government, municipality or joint-stock company. Although bonds, stocks and debentures are supposed to indicate special solvency, they are known as instruments of credit. In their cases, credit is given not merely for the possession of wealth but for the truth and accuracy of their representations. This means that in securities there is confidence not only in the solvency but also in the integrity of the debtor. The fact which must be kept in mind is that credit instruments are usually taken on pledge even when securities are required, and that in practice these securities do not go beyond personal assurances. Briefly expressed, this is the accepted view of credit, because it applies to conditions under which credit usually operates in the business world.¹ Accepting the trust based on personal assurances as the ordinary basis of credit, when

Trust.

Security.

¹ Referring to a function of credit, Mill remarks "the confidence on which credit is grounded." *Vide* Mill's "Principles of Political Economy," Book III, Chap. XI, § 2.

Risk.

loans are given against security with possession of capital goods—such as stock-in-trade, merchandise, machinery, mills and stores—the ordinary basis of credit entirely vanishes and capital takes its place. The introduction of capital further deprives these transactions of another important feature of credit and that is risk.¹ Now, there is neither any trust nor risk in these transactions in which the lender takes as security capital of greater marketable value than the value of the loan, a 'margin' being generally kept by him in such transactions. There are, of course, different degrees of trust as evident from the different forms of credit, but a difference in degree cannot imply a difference in kind, that is, trust cannot be replaced by capital. Hence, these transactions should be regarded, if not of a separate method in exchange, at least as the low types of a system which has evolved far higher types with a larger basis of trust. Although these low types may continue to exist in the system of exchange, the question is whether they are entitled to a place in the credit system?

Credit is essentially a transaction between persons.

The terms 'impersonal' or 'real' as against 'personal' credit introduce some confusion in this

Professor Gide observes that "the lender always must have more or less confidence in the borrower." *Vide* Gide's "Principles of Political Economy," (1912) p. 358.

Defining the nature of credit, Professor Seager states that "the only condition essential to its use is confidence on the part of the creditor." *Vide* Seager's "Introduction to Economics," p. 323.

¹ "He always incurs more or less risk," observes Professor Gide, referring to the lender. *Vide* Gide's "Principles of Political Economy," 1912, p. 358.

subject. They seem to be contradictory, and, consequently, unscientific. We must first explain that from its origin and development credit is essentially a personal transaction. Credit is unquestionably given for securities both impersonal and personal, such as solvency and integrity; but, owing to the acts of trust, promise and payment of interest, a credit transaction cannot take place between a lender and something impersonal. So, credit cannot be 'impersonal' but a security may be so. *Hence, credit is given to persons and not to goods*, and when it is given entirely for goods, it is given to the possessor. Now credit being essentially a personal transaction and having its basis in trust with an element of risk, what is sometimes termed as 'impersonal' or 'real' credit does not seem different from real discredit, when it is compared to the higher concept of credit. This so-called 'impersonal' credit, moreover, fails to serve two useful functions in the credit system. It is obvious that a loan given on the security of capital is an exchange of present wealth for *present* wealth and *not* an "exchange of present wealth for future wealth" which is the most important function of credit. Again, a more visible difference is noticed between 'personal' and 'impersonal' credit in as much as the latter does not give rise usually to negotiable instruments by virtue of which credit performs another important function, that of a medium of exchange. The reason why this credit does not give rise to such instruments is that busi-

Credit based on goods fails to serve two useful functions.

ness men will not be inconvenienced with the transfer of possession from hand to hand of material securities.¹ There is, of course, an instrument of 'impersonal' credit which is negotiable, and that is a 'documentary bill' or a bill of exchange accompanied by shipping documents. This bill is negotiable, that is, saleable, if the shippers of the consignment are trustworthy, but not otherwise; and, it is negotiable for the simple reason that the possession of the goods need not pass from hand to hand, since during negotiation they are in charge of a steamship company which delivers them to the last buyer. If delivery and possession of the goods had to be given after each sale, this bill would seldom be negotiated. But although a documentary bill is negotiable, it cannot serve as a medium of exchange, that is, it is not accepted in payment for the purchase of goods and services or for the liquidation of debts so readily as instruments of personal credit, such as government notes, bank-notes, checks and drafts.²

¹ It is possible for 'impersonal' credit to be converted into bank credit and thus be made negotiable, but then the credit that would circulate would not be 'impersonal' credit but the credit of the bank, which, being without any of its material security, must be regarded as personal credit. That mortgages do not give rise to negotiable instruments is well known, and mortgages form a portion of 'impersonal' credit. "But it is extremely doubtful," says Professor Gide, "whether any system no matter how ingenious, will ever enable the holder of a mortgage to negotiate it as easily as he could commercial paper; this would be contrary to the nature of things, for a mortgage will always to some extent partake of the immobility of the land upon which it is based." *Vide* Gide's "Principles of Political Economy," 1912, pp. 393, 394.

² Among the people of India, the credit system is still undeveloped. They have little confidence in one another and true

Perhaps the most reasonable view that may be taken of 'impersonal' credit, as we have already suggested, is that it is a crude form in the credit system in which more perfect forms are developing ;

A crude
type in the
credit sys-
tem.

or personal credit is comparatively scarce in business life. Most of the credit that is given is based on the security of landed property, jewellery and other goods on which a high margin is kept by financiers. Peasants get loans from money-lenders generally on the security of their standing crops at ruinous rates of interest. The lack of mutual confidence among the people is also displayed by the custom of hoarding gold and silver in the form of jewellery and sovereigns. Although a reason is shown for this custom by pointing to the fact that women in this country do not inherit real property, and so they must put by a hoard of jewellery, this reason does not prevent the custom from being a serious drawback to the flow of capital which is a vital necessity to our economic development. If on the other hand, we say that we have little confidence in our business men we come nearer the truth, but we do not solve our difficulties. Generally speaking, our economic difficulties arise from the co-existence and interaction of many evils, of which the principal ones are the low standard of material wants, the insufficiency of wealth compared to population, the antiquated methods of industry, the timidity of capital due to want of mutual confidence, and the absence of business efficiency which includes several shortcomings. Observing the recent failures of Indian banks in the Punjab and Bombay Presidency, it would appear that the lack of business efficiency—including a proper course of business conduct—is not the smallest evil. If the directors of these concerns realized how a bank should really be a manufactory of confidence, there would not be so much loss of the savings of the poor, nor such blasting of hopes for similar enterprise in the near future. It is absurd to think that foreign countries will lend us capital when our own people cannot have more trust in our business men. Perhaps the only portion that may be excused in the unproductive practice of hoarding is the accumulation of sovereigns, because this seems to be taking place in obedience to Gresham's Law. But even these sovereigns must surely come into use as capital which is so much needed in India. Our actual experience of industry and commerce in this country for many years induces us to refer to a few facts here which lie at the root of our present economic situation, but these facts are too intricate to be touched upon lightly. India is at present passing through some remarkable phases of industrial evolution which need a very full and careful investigation. In our present economic phenomena, we must ascertain first the conditions that are co-existent, then those that are interactionary and those that are related generally as antecedents and consequents. We should then be able to discover the ultimate determinants of our economic position.

The progress of credit.

for, when we study the evolution of this system, we find that its progress has been from the stage when men were ignorant and distrustful of the business conduct of their fellow men to its present development when they are more enlightened and trustful regarding this conduct. Hence, credit is progressing from distrust to trust with regard to persons. The latest development of the credit system, namely, co-operative credit—being based on the highest form of personal trust so far known—is an evidence of the direction in which credit is moving. Evidences of this direction are also apparent from the increasing use at the present day of bank-notes, drafts, promissory notes, accommodation bills and other instruments representing personal credit in the United States of America, Great Britain, France, Germany, Italy and other Western countries. If these facts be insufficient as the data of our inference and the purpose of credit is in the opposite or in a very different direction, how is it that 'impersonal' credit has failed to display some important functions in the credit system and has remained so long undeveloped? It is quite possible, and even probable, that 'impersonal' credit will continue to exist as a form suitable to communities in which men have little trust in one another owing to their industrial inefficiency under immature economic conditions or to their moral degradation brought about by keen competition, but that 'impersonal' credit is a crude stage in the credit system can scarcely be doubted.

If we were to consider the utility of trust in economic life, we should find that, not only does it constitute the foundation of credit, but that without some confidence, however small it may be, no business is actually transacted. A high degree of trust is certainly essential before a loan of money can be given, but without a little confidence in the seller of a commodity, a purchase is seldom effected. When buying a new article, the consumer must have some faith in the dealer, the dealer in the merchant, and the merchant in the manufacturer. Even people who have a vague idea of the utility of trust, buy generally from shop-keepers on whom they can place some reliance. These people believe that such dealers will not sell them inferior goods nor charge them prices above the market rates. Moreover, we observe in the business world that an entrepreneur scarcely ever engages the services of an employec unless he believes him to be trustworthy, and so, can take him on trust regarding his future conduct. Thus, the good faith upon which business relations between producers and merchants, consumers and shop-keepers, masters and servants, landlords and tenants depend, goes to show that the use of trust in economic life is more extensive than we generally suppose. At the same time it is obvious that this confidence—required in the business world generally—is of a very low degree compared with that upon which the credit system is founded.

Some trust is required in almost every department of economic life.

In the study of credit, we could not ignore the relations of credit with the system of exchange, at

How money
is connected
with credit
as a measure
of value.

least how it has become connected with money and how it has developed the banking system. We shall see first what connections credit has with money. Just as the value of present wealth—that is, goods and services—is measured by money, so the value of future wealth—that is, credit—is also measured by money. Business people speak of giving and having credit to the extent of sums counted in the standard coin of their country. In England manufacturers speak of giving credit to merchants to the value of £1000 or £2000, in the United States merchants speak of having credit with manufacturers to the extent of \$4000 or \$5000, in India bankers say that this buyer's credit is worth Rs 5,000 or that dealer is good for Rs 3,000, and so on. This manner of estimating credit shows that money is related to credit as a measure of value, or, that money measures the value of credit.¹ Of course, money is the most convenient measure available for this purpose. But we all know that in point of accuracy money cannot be compared to a measure like the foot-rule or the pound avoirdupois, as the value of money is in itself subject to fluctuation. At the same time it must be admitted that all measures are not absolutely rigid, since many of them are liable to slight variations. Stability of value is, however, one of the indispensable qualities of money, and so we may say that money is the best

¹ "Credit or borrowing power," observes Professor David Kinley, "is usually, if not always, expressed in terms of money." *Vide* Kinley's "Money," New York, 1909, p.199.

available measure for the value of credit.¹ If it is now asked how credit is primarily estimated, we should say that as the estimate of present wealth is based on the degree of its desirability, so the estimate of future wealth is based on the degree of confidence which the lender has in the borrower.

Apart from the connection which money has with credit as a measure of value, that is, as a standard for the relative estimation of exchange values, by the invention of credit instruments another connection was formed between money and credit. When these instruments were perfected and began to circulate almost as readily as money, credit served as a medium of exchange—as an intermediary in the purchase of goods and services—which is to a great extent the principal function of money. In ancient times various commodities have served as money, that is, as the intermediary commodity—cattle in Greece and Rome, rice in India and Japan, salt in Africa, tea in China and tobacco in Virginia. But none of these commodities had the qualities that good money should possess. So the precious metals, having most of these qualities, were gradually brought into use as the materials for money. Then, by the circulation of credit instruments in modern times, it has come to be realised that, since these

How money
is connected
with credit
as a medium
of exchange.

¹ Stanley Jevons in his well-known book on "Money and the Mechanism of Exchange" attributes seven qualities to the material of money—utility and value, portability, indestructibility, homogeneity, divisibility, stability of value, and cognizability.

Credit as a medium of exchange cannot always satisfy present value.

instruments are the representatives of money, credit can act generally as a medium of exchange as well as money; this means that credit can act not only as a medium for the purchase of goods and services, but also for the liquidation of debts. Still the power of credit to satisfy present value cannot always be as great as that of present wealth. Indeed, we must here add that in ordinary times credit serves as a medium for the purchase of commodities and the liquidation of debts. But in times of crisis when there is a decline of the credit system—which reminds us somewhat of the nervous system in the human constitution—transactions previously effected through the medium of credit become paralysed. Only the purchase of services continues to work on the basis of credit, though not to such extent and vigor as before. Then confidence has to be restored by the infusion of gold in the nervous centres of finance to resume the normal conditions of business, and only then does credit serve again as a medium of exchange. Having observed the ways in which credit acts like money, we shall now see in what respects credit has evolved to a position as good as money, also how money and credit have become mutual substitutes in the exchange system of modern communities.¹ To understand how this development has taken place, we must know first

¹ Because money (current coins) and credit (credit instruments) have become mutual substitutes, we cannot argue that they are identical. When two things can be interchanged at will in a market, all that we can say is that they have an equal value. But it would be absurd to say for this reason that they are one and the same thing.

the principal forms in which coin and credit circulate in modern states.

In all modern states, standard and token coins are issued by the government. Standard coin is that which constitutes by its value the standard for the estimation of the values of all other money—whether metallic or paper—in the country. Consequently, the values of the latter are measured and regulated by the value of the former. Also the superior position of being regarded as a 'legal tender' is conferred by the state on the standard coin for the reason that its intrinsic value is strictly equal to its face value. Without this condition or its equivalent, no money could be made a legal tender in any sound monetary system.¹ The identity of metallic and legal value in the standard coin is main-

Standard
coin.

¹ An equivalent of the aforesaid condition has been brought into use to enable legal money to be utilised for large payments. Since standard coin only, if demanded and paid out in large quantities would hamper the growth of business, more convenient forms of legal money have been devised. Accordingly, all modern states confer the legal-tender quality on some form or forms of *redeemable paper money which can be converted on demand into standard coin*, thus making the paper money the guarantee for an equivalent quantity of standard coin which the holder possesses in the government treasuries. This redeemable paper money is a legal tender in addition to the standard coin, and, it is amply covered by a gold or silver reserve with the government in all sound monetary systems. This is one of the fundamental principles of fiscal legislation. Another such principle is the maintenance of the stability of value in the standard coin, which has been referred to already. In the United States of America and in India, certain forms of paper money issued by the government are legal tenders—Treasury and United States Notes in the former country and Currency Notes in the latter. Bank Notes of the Bank of England and of the Bank of France, which are convertible on demand, are legal tenders in England and France. These forms of paper money are, of course, legal tenders everywhere in their respective countries except in their offices of issue, for, without such exception, they would lose their power of redemption.

Token coin. tained in all such systems by 'free coinage.' Token coins are issued by the state as a help to the standard coin, and so, they are known also as subsidiary coins. They are meant to be used as small change in monetary transactions and are generally made of metals inferior in value to that of the standard coin. Also, the intrinsic value of a token coin is usually less than its face value, this being a reason why it is never a legal tender. The state does not allow the free coinage of token money, for if it did, people would have this money coined at the mint to benefit by the difference in values. Since standard money is the gauge of value for all money in the country and money measures the value of credit, it follows that the exchange values of paper money and commercial paper, which come under the category of credit instruments, are measured by the value of standard money. Moreover, standard money has an universal exchange value. Therefore, without the existence of standard money having such a value, it would have been practically impossible for credit instruments—particularly foreign drafts and bills of exchange—to have come into wide circulation.

Standard money is not the considerable cause of the value of credit.

Since the value of credit is measured by standard money, can it be said that this value depends on the gold or silver exchanged for it? It is obvious that we cannot say so entirely nor in all cases. We must see first how measure is distinct from cause with regard to value. Can we say that the value of a commodity arises from the metallic money that

is paid in exchange for it? This would merely be its exchange value which would not reach the origin of value. The value of a commodity really arises from the fact that we *desire* it, which is due to its utility, scarcity, or some other cause. Similarly, the value of credit arises from the fact that there is *confidence* in the debtor, which is generally due to his solvency, integrity and efficiency. The precious metals may sometimes be the cause of the value of credit, that is, credit may in some cases be due to gold or silver in the possession of the debtor, but confidence arises from other causes as well. Only within the extent that confidence arises from solvency, may it be due to the possession of gold or silver. But even in the consideration of solvency, creditors regard wealth of whatever kind it may be and not necessarily in the form of gold or silver. Therefore, with less truth can we say that the value of credit arises from the standard money that is exchanged for it.¹

¹ Although it does not appear possible to draw any inference regarding credit on the basis of gold, other than the fact that gold as the universal money *measures* the value of credit, the following figures compiled by Sir George Paish and published in the *Encyclopædia Britannica Year-Book* for 1913 are interesting. They show the value of the stocks of gold held in the important gold-centres of some of the countries of the world in June 1912:—

United States of America (Treasury)	...	£247,652,000
Russia (Bank of)	...	£151,782,000
France (Bank of)	...	£130,500,000
Austria-Hungary (Bank of)	...	£51,586,000
Germany (Bank of)	...	£44,400,000
Argentina (Conversion Office)	...	£42,767,000
England (Bank of)	...	£41,100,000
Italy (Bank of)	...	£40,976,000

Statistics of the value of credit employed in these countries do not seem to be available.

The credit
of the state.

The credit of the state has been brought into use by the circulation of paper money. There are no records to show when this money came into existence, but it is supposed to have originated centuries ago. It is probable also that the obvious convenience of paper money as a medium of exchange in large monetary transactions was seen by men in the past ages. If we were to judge from the fact that it is easier for people to have confidence in the state than in private individuals and corporations, we must suppose that paper money came into existence before other instruments of credit; and, our historical knowledge teaches us that this is what actually happened. Adam Smith considered the convenience of paper money from a remarkable point of view. He observed that the metallic money used in the currency system of a country was wealth employed unproductively. Comparing this circulation to the use of roads in a country, he declared that the use of paper for metallic money was like restoring the roads to cultivation, that is, to a productive purpose. We find now that at least two circumstances favoured the origin of this section of credit—its convenience to the people and its source of profit to the state. It is easy to see the convenience of paper money to the people; and, its profit to the state becomes obvious when we realise that this money (specially inconvertible paper) allows a state to minimise its supply of metallic money. Paper money which represents the credit of the state is found in three principal

forms—convertible, inconvertible and representative—the first being the most important. *Convertible* or redeemable paper money is issued by the state in the form of notes which generally promise to pay on demand their value in standard coin. The state has always a reserve of gold or silver in its treasuries to redeem these notes. This form of paper money is sometimes called ‘fiduciary’ money. *Inconvertible* or irredeemable paper money is issued by states usually in the form of scrips which specify a sum in standard coin. This class of paper money—also known as ‘conventional’ money—is issued by states which have an insufficient quantity of metallic money, and so, it is expressed usually in the fiscal legislation relating thereto that when the state can afford to exchange it for metallic money, it will do so.¹ The issue of inconvertible notes is very rare, and, up to now has taken place only in times of fiscal emergency. *Representative* paper money, as issued in the United States of America, is in the form of certificates for standard coin deposited by people in the State Treasury. These certificates are convertible on demand into standard coin. Since paper money comes within the sphere of credit, it may be said that inconvertible paper represents an excess of credit which the

Convertible
paper money.

Incon-
vertible paper
money.

Representa-
tive paper
money.

¹ “Two varieties of government currency,” observes Dr. W. A. Scott, “must be distinguished, known respectively as *convertible* and *inconvertible* notes. By the former are meant promises of the government to pay *on demand*, and by the latter promises to pay *at some indefinite and undetermined date in the future*.”—*Vide* “Money and Banking” by Scott, London, 1903, p. 99.

state obtains from the people, as evident from the unusual trust they have in its solvency and integrity. Convertible paper money represents an ordinary degree of credit obtained by the state, that is, trust which is obtainable under normal economic conditions. Representative paper money indicates a departure from the ordinary manner in which the people trust their government with regard to paper currency. In this case there can be no question of the citizen's confidence in the state with regard to a sufficiency of reserve. Here the trust that the state obtains from the people seems to be similar to that reposed by the owners of moveable goods in their trustees. Consequently, we may say that this money defines the sphere of trust in as much as it excludes the question of controlling a reserve.¹

Bank-notes indicate a sound credit in the banking system.

An important stage in the evolution of credit has been the introduction of the bank-note. The invention of this note is ascribed to Palmstruch, the founder of the Bank of Stockholm, about the middle of the seventeenth century. A *bank-note* is a note issued by a well-known banking institution which promises to pay on demand in standard coin the sum of money specified on the note. By the circulation of these notes the credit of reliable banks has come into use, and the banks profit thereby since they can usually utilize productively a por-

¹ The above references to paper money, being extremely brief, would require to be read with the studies of this subject as given in Scott's "Money and Banking," White's "Money and Banking," Kinley's "Money," Nicholson's "Money and Monetary Problems," and Bastable's "Public Finance."

tion of their reserved coin which is seldom or never demanded. Yet few states allow a bank the privilege of issuing notes unless it has a reserve sufficient to redeem such issues, so that, the credit represented by these notes is based on a security almost as good as that of convertible paper money. This is one of the reasons why bank-notes of the Bank of England and of the Bank of France are legal tenders in their respective countries. Under special circumstances, bank-notes are similar to convertible paper money, but generally speaking it is necessary to observe the distinction between these two forms of credit, since we cannot ignore small differences if we wish to be precise. Convertible paper money represents the credit of a state, while a bank-note represents the credit of a well-known bank, and a state being usually more solvent than such a bank, its credit instrument must be safer than that of the latter. Then, a state can always afford to maintain an adequate reserve to cover its redeemable paper money, while a bank being supported by its business has always the temptation to reduce its reserve to a minimum, so as to derive some interest from a portion of the reserve. If the management of a bank of issue miscalculates in this respect and a crisis overtakes it in that position, its notes may cease to be redeemable. In the history of some of the best banks of issue such misfortunes have occurred. The distinction between redeemable paper money and the bank-note may, therefore, be observed in their difference in security, and in the fact

Bank-notes
and convert-
ible paper
money.

that the former is usually a legal tender while the latter is generally not so.

Fiscal measures to secure the redemption of bank-notes.

In certain states attempts have been made by careful fiscal legislation to improve the guarantee for the redemption of bank-notes—largely by the establishment of reserves and partly by the security of bonds. It is now worth considering if such legislation has succeeded in excluding the element of risk attached to credit and in replacing it by an absolute guarantee for the redemption of these notes. The provisions for such redemption generally consist of restricting the amount of notes by that of the reserve as in the Bank of England, by limiting the amount of notes to a maximum issue as in the Bank of France, by fixing a ratio—generally three to one—between the amount of notes and that of the reserve as in Germany and Belgium, and by compelling the banks of issue to secure their notes by reliable credit instruments—such as government bonds—as in the United States of America. According to the first regulation, it has been found that the bank of issue cannot have a sufficiency of notes or specie in times of crisis to carry on its discount business, and so the law relating thereto has had to be suspended during such periods. Under the second scheme there is a limit to the issue of notes but none to the amount of the reserve, and so it is obvious that there is no proper guarantee for redemption. The next scheme is more reasonable, but like the first becomes impossible to maintain in periods of crisis just when the guarantee is most necessary. The

last named method is perhaps the best that has been devised as a provision for redemption, since, at least in the United States, the Comptroller of the Currency Department may call for additional security from the banks of issue in times of crisis when government bonds depreciate. But here we come, although in a roundabout manner, to another difficulty which the banks have to encounter in critical times. Owing to these circumstances, it appears that no method so far devised has been able to make a perfect provision for the redemption of notes, even when secured by government bonds which must be considered the soundest form of credit; and so, we may remark that up to now it has proved extremely difficult to exclude the element of risk from credit. It is obvious that anything which partakes of the uncertainty of the future must contain an element of risk, and, we cannot forget that credit is after all future wealth.

These measures do not exclude risk from the soundest form of credit.

Besides the credit of well-known banks as represented by bank-notes, the credit of ordinary banks, joint-stock companies and individuals has been brought into use for productive purposes in modern times to a far greater extent than in the previous ages. This credit is largely represented by negotiable instruments, such as checks, bills of exchange, promissory notes, drafts and accommodation bills, most of which are too well-known to need any description, and partly by other forms of credit, such as letters of credit and cash-credits, which are not negotiable. Negotiable credit instruments are often

Commercial credit.

Negotiable
credit instru-
ments.

termed 'commercial paper,' a phrase which has come to possess a special significance, because, speaking generally such paper would indicate all documents used in commercial transactions.¹ Without the use of these negotiable credit instruments which represent the credit of banks and business people, it is obvious that commerce could not have become international. Apart from the need of some trust between man and man in every business transaction, international commerce could not be carried on if people had to undertake the expense and risk of making payments in specie only. Even the use of paper money would involve some risk in transit, would make fractional payments impossible, and, would render international payments inconvenient in national money, thereby hampering the growth of trade generally. But with the use of negotiable—that is, transferable—credit instruments, effected by the help of the banking system, various facilities have been created by which trade has developed to its present enormous dimensions. Credit has certain connections with trade, but its relations with banking are really vital, which we shall see now.

Credit and
banking.

Transactions in credit would be almost impossible without the help of intermediaries known as

¹ It might be observed here that by 'commercial paper' is meant usually the negotiable credit instruments of commercial people, and that, consequently, it excludes from its category such papers as *invoices*, *insurance policies*, *indents* and *contracts* which are not credit instruments, *letters of credit* which are not negotiable without conversion, and *cash-credits* which are not represented by any special credit instrument. A bank obtains a 'letter of security' before opening a cash-credit account, but this does not constitute a cash-credit transaction.

bankers, just as the sale and purchase of goods would be extremely difficult without the aid of middlemen known as merchants. It is for this reason that a bank may be called a recognized mart for credit as well as a machine for the exchange of wealth. The functions implied by such an institution are to be found in every bank. Certain banks which produce credit from its raw materials may be called the manufactories of credit. These are the co-operative credit institutions which form the main subject of our study. But without referring to them in particular, we shall see first the nature of banking generally. Like the duties of a merchant are to buy and sell goods, so the *functions* of a bank are to *lend* and *borrow* money. Its lending is based upon the credit of its constituents and its borrowing depends upon its own credit. The transactions of a bank are originally founded on confidence, but they gradually help to develop its own credit as well as that of its constituents, by reactionary results. When a bank enters into these transactions, it may be said to utilize certain methods with the object of fulfilling its functions; and, in the transactions themselves we see clearly the vital relations between credit and banking.

The functions of a bank.

A bank begins business with capital obtained from its share-holders, keeping a portion of it as a reserve and utilizing the remainder as its working funds. These correspond usually to its fixed and circulating capital. The solvency, integrity and efficiency of the bank, arising respectively out of its

Banks borrow usually by their 'deposit' business.

The regular
methods in
banking.

capital, the good name of its directors and the soundness of its management, beget confidence with the public who naturally make *deposits*, which is the ordinary way in which a bank *borrow*s money. Most people have loose cash always with them which cannot be employed productively and must wait until it is required for current expenses or some lucrative investment. All these small sums of money the banker obtains from the people and keeps in deposit. He informs the public that by consigning to his safe keeping all money for which they have no immediate use and which he guarantees to return at their first call—he relieves them of the anxiety of its care; that, although he is providing them with his services, he is willing to give a small return by way of interest for their patronage. He calls attention to the fact that, while this money is with them, it is unproductive. He sums up the advantages by saying that he will act as trustee for their money, collector of their revenue, payor of their cheques and liquidator of their debts in conformity with their orders, by all of which they will be spared a great deal of vexation. Having thus secured the loose, unemployed funds of the public, the banker proceeds to employ productively the greater portion of such funds—at least, those obtained on fixed deposits—for the benefit of the bank as well as of the depositors. Besides these sums deposited by people, well-known banks obtain the use of money from the public by the *issue of bank-notes* which have been already described.

When a bank wishes to *lend* money, it does so generally by *discounting* the bills of exchange, promissory notes, drafts, warrants of payment and other transferable credit instruments payable to its constituents. It may here be said that a warrant of payment is not always negotiable, also that a *bill of exchange* is "a written order by which the person drawing the bill orders some other person, upon whom he has a claim, to pay a specified sum of money to a third person." This third person is generally a banker. If the banker believes that the other person who is the debtor will pay the bill duly, he purchases his credit, that is, takes the bill over on payment of its value, less a very small sum as discount. This process of discounting, when the bill is purchased outright, is known in commercial circles as the 'negotiation' of a credit instrument. Distinction must here be made between drafts and bills of exchange as drawn by business people. A *draft*, which is often called a 'clean bill,' is usually drawn on and payable by a bank, but a bill of exchange which is attached to shipping documents is drawn on a commercial debtor and collected by a bank. In other respects a draft is the same as a bill of exchange. Banks also lend money by allowing *overdrafts* to safe people, by opening *cash-credit* accounts against personal sureties and by making advances on *collateral* securities. The last named securities usually consist of the stocks, bonds, debentures and shares of governments, municipalities and joint-stock companies; but these securities may

Banks lend usually by their 'discount' business.

Banks lend also in other ways.

also be made up of bills of lading, life insurance policies and warehouse receipts. Letters of credit also constitute a kind of security. Merchants have often to purchase goods on the security of banks in foreign markets where they are not known. This security, known as a *letter of credit*, is issued by a bank in favour of a merchant authorizing him to purchase up to a certain sum of money the payment of which is guaranteed by the bank. A letter of credit is essentially a credit instrument because it represents the credit of a bank, and it is used as a security with greater facility than credit instruments such as bonds, stocks and debentures, because it guarantees to pay in a specified sum and not a depreciable market value.

The relation between credit and banking.

The relation which credit has with banking really consists of an affinity of functions which are similar and sometimes associated in both systems. Yet we could scarcely say that there is an identity in these functions. Credit derives its origin from material and moral guarantees the formation of which is often largely beyond the sphere of banking. It is usually when credit is established that banking effects the sale and purchase of such credit, much as merchants effect the sale and purchase of goods after they are produced. Thus, it appears that in the credit system there are fundamental processes, such as the creation of solvency, integrity, knowledge of business conduct and efficiency, for which the system of banking makes no special provision. Further, we have seen that in banking there are

some regular methods, such as the collection of bills, the custody of goods, and the payment of checks, which are not essential to the formation of credit. It is true that to some degree banking tends to develop the material and moral guarantees of credit, by the well-known reactionary effect of co-related conditions, and so, we have remarked the functional affinity between the two systems; but, to say that this relation actually consists in an identity of functions would be partially untrue. If this were the case, why should a bank itself require to establish its credit before it can attract depositors, why again should a credit society require to go to a bank before it can obtain its loans? These facts generally observed in the business world have an obvious meaning, namely, that confidence has first to be established by the formation of material and moral guarantees which must also get known in the financial market, and then this confidence has to be monetised at a bank. Here, it is also evident that the credit system begins with certain fundamental processes which are more clearly displayed in a credit society than in an ordinary bank. The relation between credit and banking, therefore, consists in an affinity of functions, and, regarding their evolution we may say that the functions of credit are highly developed in banking. Thus, banking appears to be an advanced stage in the credit system, namely, the stage which provides the machinery by which credit can be easily converted into money and utilised extensively for productive purposes.

Credit and
foreign trade.

Besides the fundamental relation which money has with credit and the affinity of functions which credit has with banking, credit has formed some connections with trade and has begun to influence it to no small extent. When speaking of commercial credit we said that without the use of negotiable credit instruments, which represent the credit of banks and business people, trade could not have become international. Now the staple medium of this international trade has proved to be the bill of exchange. Let us take the international trade of a country and see how this has come about. India has to receive every year from foreign countries for her exports and other claims Rs2,457,000,000 roughly, and she has to pay out to such countries for her imports and other debts Rs2,142,000,000 approximately. These payments on either side are made by bills of exchange—in which debits and credits are exchanged or set off against each other—and merely the 'balance of accounts' settled in coin. Hence, foreign countries have to export gold and silver to India to the value of about Rs315,000,000 annually to settle their accounts with her.¹ In this connection, a country

¹ The Director of Statistics in the Department of Commerce and Industry in India shows that in 1913-14 the net import of gold was worth Rs23,32,00,000 and that of silver Rs6,24,00,000. He also states: "Nearly one-half of the total amount of gold imported, speaking generally, is in the shape of coin—practically all in sovereigns which are freely imported by the Exchange Banks for conversion at the Currency Offices into rupees and notes." Almost all these sovereigns seem to be passing finally into the hoarded wealth of India. See *Review of the Trade of India in 1913-14*, pp. 6 and 81.

which has a favourable balance gets an import of gold and the country with an unfavourable balance has to export gold. The reasons for this method of settlement are obvious. Since only a particular amount in *bills* is available for *exchange*, when there is a demand for a larger amount the rate of exchange rises, when the demand is for a smaller amount the rate of exchange falls. Thus, the rate of exchange rises in a country when there is a scarcity of bills payable abroad, that is, when excessive payments have to be made abroad but sufficient bills are not available, this situation arising when the country has an unfavourable balance of accounts, and must export gold for settlement. During a favourable balance in the country, the results are, of course, the reverse of those just seen. Under the first set of conditions, the rate for bills of exchange rises to a point when it becomes cheaper to export gold, and so this export begins. Discussing the rate of exchange, Professor H. R. Seager makes the following observations: "International bankers and others who buy and sell foreign exchange try to adjust the rate so that the demand and supply will just offset each other. Excess on the side of supply causes the rate to fall, the limit being the lower gold point, at which credit is abandoned as a medium of exchange and gold is used instead. Excess on the side of demand causes the rate to rise, the limit here being the upper gold point, at which credit again is discarded and gold used. Gold thus serves as the medium in which international balances are settled when debits

The rate of
exchange.

and credits do not exactly offset each other."¹ This method of settling accounts between countries goes to show that, in spite of the various methods of payment and the complex circulation of wealth in modern times, international trade has been reduced by the use of credit instruments to an improved form of barter which is different from that of ancient times by the fact that it possesses a stable standard of value.

Credit and
internal
trade.

Credit circulates in the internal trade of a country mostly in the form of paper money, bank-notes, cheques and promissory notes which may be said to represent national credit. As compared to this, the bill of exchange is the most important instrument of universal credit. The relation between credit and internal trade, which is mainly quantitative, may now be observed. In every country, there is always a proportion between the volume of trade and the quantity of credit that is utilized at any particular period. When trade is great, the need for credit is great, when trade is small, the need for credit is small. For this reason, a quality in the nature of credit should be its elasticity. Particularly in agricultural countries, like the United States of America and India, it is desirable that the instruments of credit should be elastic as a medium of exchange. After the two principal harvests of the year in India, large quantities of produce are bought and sold.

¹ *Vide* Seager's "Introduction to Economics," (1907), p. 363.

The demand for credit then becomes great. If the medium of exchange does not expand readily during these seasons, we get the economic disease known as the 'stringency of money.' When this disease comes on, money becoming scarce, interest goes up and prices of commodities come down.¹ The remedy against this evil appears to be the additional issue of currency notes and their withdrawal from circulation after the stringency is over.

Having observed the various conditions under which metallic money and credit are utilised as the means of exchange—how, in foreign trade, credit and gold act alternately as the circulating medium, and how, in internal trade, credit and coin act simultaneously as the means of circulation—we are now able to say generally that credit and gold have become mutual substitutes in the modern system of exchange.² We find also that in foreign trade, the volume of wealth circulating through the medium

Money and
credit are
mutual subs-
titutes.

¹ The scarcity of money causes a rise in the value of money, the effect of which is a fall in the prices of commodities. This well-known economic principle is formulated in the 'quantity theory of money.' In this principle we must remember the relativity of value.

² Professor Langworthy Taylor in a recent work explains how credit and gold act as mutual substitutes. "In ordinary times," he says, "*credit* which is *future goods*, is employed for the circulating of *present goods including gold*, which is also to be looked upon, in that case, as a present commodity." * But in a time of crisis when gold has been imported to make good promises, or in other words, to 'pay' them, then it may be said, exceptionally, that *past production* is now applied to the circulating of goods and promises. In ordinary times, then, future goods circulate present goods including gold. But in the extraordinary pressure of a crisis, gold, the past, the realized good, circulates promises and wares." Vide "The Credit System" by Taylor, 1913, New York, p. 299.

of credit is far greater than that which circulates through the medium of gold ; again, that the period during which the circulation of credit takes place seems also greater than that of gold. In internal trade similar conditions are apparent, the 'clearing house' system having effected greater economy in the use of metallic money than is represented merely by the value of credit instruments used, for their rapidity of circulation must be considered. Not only does it take a shorter time to make out or endorse over a check, say, for £10,000 than to count £500 in gold, but a check is often negotiated several times before it goes to the clearing house. We reach the conclusion, therefore, that in modern communities credit has evolved to a position of more extensive utility than metallic money as a medium of exchange. Its importance to economic life at the present day may be realised from the fact that a breakdown of the credit system in the financial markets of Europe leads to the business world being paralysed. Still we cannot ignore the fact that the value of credit must always be measured by a standard having intrinsic and universal value such as gold. We shall now proceed to the stage of evolution in which credit has entered into the sphere of co-operation. While the credit system continues to operate largely under individualistic conditions in which material guarantee is prominent, a good portion of this system is developing by co-operative methods into a stage in which moral guarantee seems to be emphasized.

Credit has
displayed ex-
tensive uti-
lity.

CHAPTER X

CREDIT IN CO-OPERATION

So far we have sketched briefly the evolution of credit. We have seen that during the ancient and middle ages credit in a crude form was utilized principally for purposes of consumption. In modern times we have found that the extension of exchange has improved confidence between man and man, that extended exchange and improved confidence have led to the development of banking and currency; that, by these processes, which to some extent were interactionary, credit has widened its sphere to purposes of production. We have found also that credit has gradually increased its utility extensively by becoming a substitute for metallic money. Upon an enquiry into the causes of credit, it was further evident that credit is based on confidence in which there is some measure of security and some of risk. It appears now upon a closer examination of the causation of credit that this confidence arises principally from the solvency, integrity, and efficiency of the debtor.¹

When credit is given for purposes of consumption—that is, when the borrower is expected to destroy the utilities of the loan he obtains—then confidence seems to arise almost entirely from his solvency. Since the value of the loan will cease

Some important stages in the evolution of credit.

Confidence does not arise in all forms of credit in the same manner.

¹ The word 'solvency' usually implies material ability to repay debts, and it is used here in that sense.

Business
efficiency is
considered in
credit for
production.

to exist and will not be available for repayment, it is evident that credit is given for consumption only when the borrower has wealth of his own to repay the debt, for the lender seeks primarily the security of his money. But when credit is given for purposes of production—that is, when the borrower is expected to create utilities by the loan he obtains—then confidence does not arise so extensively from his solvency, for it is supposed that, in addition to his own resources, the value of the loan will continue to exist and will at least help the borrower to repay his debt. Therefore, in credit for production, if the borrower's solvency is defective, any business efficiency that he may have is sometimes regarded as a substitute for this defect. Of course, in either department of credit, confidence is completed in the mind of the lender if there is integrity in the borrower. When confidence is established, the lender is satisfied as to the safety of his money. But, besides this safety, he must look to the benefit he will derive by the loan, that is, to the rate of interest he will get for it; and, in this matter, he inclines naturally towards the highest available rates of interest which are paid usually by the least solvent borrowers in the market.¹ So, to maintain the stability of his invest-

¹ It must be stated here that we are not referring to the sale and purchase of shares the values of which are not determined in the aforesaid manner. We are referring to credit transactions merely. In this connection, we may remark that the purchase of *shares* can scarcely be looked upon as a credit transaction, nor *shares* of stock placed in the category of credit instruments. It is true that joint-stock companies are often said to raise their capital by sale of shares, but this transaction is a *perma-*

ment and yet get a fair rate of interest, the lender generally keeps between the extremes of creditable transactions. In this manner, considerations connected with certain material and moral possessions of the borrower as well as the purpose and prospects of the loan are weighed by the lender before the equilibrium of credit is established in his mind. We may now reduce these considerations and bring them under the two heads of security and risk, and say that *personal credit generally tries to balance itself between security and risk* by methods similar to those just described. This seeking of a stable equilibrium in opposite forces is a well-known economic tendency, even a natural law under conditions when such forces have a counteractionary effect on each other. It must be understood here that in the case of government loans—which are issued occasionally—the stability of credit is obtained without difficulty, as this credit rests very largely on security; but, with regard to all other kinds of personal—that is, real—credit, this balancing is effected by a careful weighing of considerations on the credit scale which has security at one end and risk at the other. Here, it may further be observed that the rate of interest on loans is determined not only by the

Credit balances itself between security and risk.

ment transfer or sale of stock to the public to whom profits (known as *dividends*) are paid. It is not a *temporary* transfer of stock as security for a loan on which interest is stipulated. The tendency to regard shares as credit instruments seems to arise from the fact that shares are referred to as 'shares of stock' and *stocks* or government bonds and consols are *credit* instruments, also, because *preference* shares are looked upon as credit instruments if there is a clear stipulation to redeem them in money after a fixed period. But when speaking of shares, we refer to the *ordinary* shares of stock companies.

demand and supply of money and the 'final utility' of capital (influencing this rate generally as co-existent causes), but also by the security and risk attached to credit. It seems that the two last factors are seldom given their proper importance in theories of interest, although it is often implied that the rate of interest is determined solely by 'final utility'—a theory which is of considerable value to credit in production but is not possible to explain with regard to credit in consumption.

The scope
of credit in
co-operation.

Having examined the nature of credit generally, we shall now proceed to see the particular methods by which credit has been made to suit the needs of agriculture, handicrafts and retail trade which are carried on by many millions of men, probably the majority of the world's producers in point of number. Also, we shall see how by these methods, which are mostly co-operative, credit has strengthened its basis of confidence without any considerable aid from wealth that is centred in money. At the same time, it will appear that these methods have been organised into a system—known as co-operative credit—which manufactures credit from its raw materials, as compared to the ordinary system of banking which has unquestionably enlarged and developed the credit system, but the methods of which do not seem to be so far-reaching in the creation of credit.

The peculiar nature of the financial needs of the cultivator and the poorness of the security he could offer have been largely instrumental in bringing

about a fusion of credit with co-operation. The credit required by cultivators is of a special character. Owing to the slowness of nature's productions, agriculture yields a return from its capital investment after a season which varies generally from six to eight months. In the meanwhile, the farmer is continually in need of capital to carry on the expenses of cultivation. These include the price of labour applied to his industry, if we were to follow the usual mode of determining cost in all forms of production.¹ Agricultural credit is, therefore, of such a nature that the ordinary banker cannot deal with it. He has other people's money on trust which he may have to return at any moment, and so, he keeps this money in an easily available manner by investing it for short periods in credit instruments which always circulate before

How credit in co-operation originates largely from the needs of agriculture.

¹ Since labour must be reckoned with as an agent of production, it is obvious that the price of agricultural labour cannot be excluded from the cost of production in agriculture, whether this industry is worked with or without the aid of hirelings. Economic writers as well as business men generally include in the cost of production the price of hired labour as well as a remuneration for the labour of organization and management, since the latter could always be earned by the entrepreneur as a salary in his profession without the risk and worry of personal enterprise. Then, the cost of production (which includes also interest on capital) is deducted from the sale-price of the finished product and only the remainder, if any, is considered as profits. It is obvious that by the above mode of determining cost in production, profits can accrue only by a monopoly, if the law that *the price of a product tends to coincide with its cost of production* holds good under the competitive system. Under these conditions, it also follows that "the normal rate of profits is zero" as formulated by Professor Leon Walras. But whether there be any profits or not, for sound economic reasons the price of labour (manual and skilled) is always included in the cost of production, and in agriculture there seems no valid reason why any portion of this price should be excluded from such cost.

The peculiar nature of agricultural credit.

him and are always negotiable. The banker has also other money on fixed deposits and reserves which he invests more or less permanently. The peculiar nature of agricultural credit, as Mr. H. W. Wolff has well described, is that it is "too long for occasional lending and too short for permanent investment." At the same time, the security which an ordinary cultivator can offer, namely, his crop, his cattle or his farm implements, is not sufficiently sound; and, experience has proved that he is seldom able to redeem a mortgage on his land. These circumstances add to the difficulties of a banker in being able to deal with agricultural credit. Hence, it was first necessary to organise this credit in such a manner as to suit the capabilities of ordinary banking, and then to get such credit monetised at a bank. Co-operative credit has fulfilled these requirements, and so it has created credit for agriculture. And, its methods have suited not merely the financial needs of this great industry, but they have gradually led to the provision of capital for small traders, artisans and craftsmen. Let us now see how this credit has been organized.

Why Raiffeisen adopted co-operation as an effective process.

The founders of co-operative credit observed the difficulties of agricultural people in the pursuit of their industry. Raiffeisen found that most of the peasants in his native soil were extremely poor, ignorant, suspicious of one another and exploited by money-lenders. Somehow or other he thought of co-operation as a means by which their condition could be improved. Why he thought particularly

of this process, it is difficult to ascertain; but, we all know that co-operation—generally described as distributive—was being tried at that time by a society of enterprising workmen in England known as the Rochdale Pioneers' Association which was founded in 1844. Anyway, the peasants themselves must have fallen in with his idea, in obedience to the natural tendency of men to co-operate in poverty and distress. Accordingly, as a measure which seemed to be tentative, Raiffeisen is reported to have organized a benevolent society among the indigent farmers of his district for the purchase of corn, potato and cattle. German writers state that this was his first attempt at co-operation, but we are not sure that it was the only society which he experimented with. At any rate, we are certain that, sometime after this endeavour, he launched out on his scheme by which co-operation was utilized for the purpose of creating credit for these peasants. The experience gained from his preliminary efforts must have convinced him and his followers that co-operation would prove in time a very practical source of strength in their difficulties. At the very outset, it enabled them to form a strong purchasing body which bought for them food and cattle at wholesale prices. This meant that they saved for themselves at least the profits of the middlemen. But probably their sellers were inclined to allow them credit, seeing that as an united body they had larger resources than as individuals. In any case, there was at least this

Raiffeisen
believed in
co-operation
as a source of
strength.

possibility which might have dawned on the mind of Raiffeisen. He was also probably aware that the Prussian Land Banks, which obtained extensive credit for landowners in his country, were established mainly by the help of co-operation. All these circumstances must have convinced him that co-operation would prove an effective process in the fulfilment of his scheme.

By co-operation he secured the material basis of his credit.

The manner in which co-operation manifested itself as an effective process in Raiffeisen's scheme was that he was able to obtain by it the material guarantee for his type of credit. When organising his credit institution, we have seen that he enjoined on its members the principle of unlimited liability. In combining their responsibilities by this principle, he practically combined their material resources for the repayment of debts. Herein lay the material value and the greatest utility of his process of co-operation. It is true that he started his society, in the absence of entrance fees and shares, with a personal subscription of 6000 marks, and also laid down that all profits should go towards building up a reserve which was to be divided into two sections—the ordinary and the indivisible. But these securities were small, compared to the guarantee of unlimited liability; and, at the outset, the society had barely any profits to carry over to reserve. Therefore, in the early stages of his society, when credit was most needed, there could not have been any reserve, but merely a working capital of 6000 marks. This capital, being

mainly utilized for purposes of investment, could not have served as a sufficient guarantee. Hence, the material guarantee of his institution was mostly composed of the unlimited liability or the joint and several responsibility of all its members.

Raiffeisen well understood that confidence in credit arose not merely from material resources, but to a considerable extent from a moral basis, and, that the latter should be made up of honesty, truthfulness, fidelity towards promises and self-sacrifice. These ethical principles, therefore, were to be among the crude materials from which he desired to manufacture his type of credit. And, in practical economic life, it is certain that the credit system has developed to no small extent from such principles usually indicated to debtors by the code of business ethics. This clear insight of Raiffeisen into the moral foundation of credit, which even Schulze failed to perceive so plainly, is certainly remarkable. It has really led to the success of his scheme. Apparently, this perception was quite original in the mind of the founder. That the moral consciousness of industrial society plays an important part in the formation of credit is a truth which he could not have discerned from any symbolic institution which he was really the first to design. He might have known of this consciousness of society in connection with the course of human conduct generally, from the teachings of moralists. We know that in his time, Hegel did discuss the importance of the social conscience

The moral basis of credit in Raiffeisen's system.

as a dictate to individual conduct, but, we are not aware that he pointed especially to the utility of this principle in any department of economic life. Therefore, if Raiffeisen saw the possibilities of this portion of ethical teaching with special regard to the formation of credit, his perception was indeed commendable. Let us see how these ethical principles served as the moral basis of his credit.

How moral principles are embodied in his system.

When organizing his credit society, the first regulation which Raiffeisen laid down was that only men who were honest could be admitted into the society as members. Now, since honesty may be explained in several ways in the philosophy of morals, we must give it the significance that Raiffeisen wished it to convey, namely, trustworthiness which obviously includes the quality of truthfulness. The regulation regarding a limited area for membership acted in support of the one just mentioned. Unless the members resided within a circumscribed area, they could not know one another's conduct thoroughly, that is, find by association if they were really trustworthy and truthful. Here we get a chance incidentally of observing the similarity in effect between the method of limited area and that of international communication which have helped the development of credit. Both these methods enable men to become acquainted with one another's conduct. To revert to the society of Raiffeisen, it was further laid down among the rules that the members had the power to expel any member whom they had ceased to trust. This implied that a

display of honesty for a limited period on the part of a person, merely to get into the society with the object of obtaining a loan, was not sufficient. His membership forthwith terminated if there was no continuance of good behaviour. These rigorous measures reflect to some extent the degree of honesty expected in the credit system generally from debtors with regard to monetary transactions. Besides these measures which Raiffeisen adopted to ensure the aforesaid moral principles he took steps to foster others, since there was no certainty about their existence among ignorant and uneducated people. He knew that fidelity towards promises had to be specially emphasized. In fact, loans are no other than promises made by debtors to pay money on a future date, and, if the importance of this principle was not duly impressed on them, credit could not be established. Accordingly, he laid down in the rules of his society that instalment and interest on loans were to be paid punctually on due dates. The full repayment of a debt within a short period could not be enforced in a society where the debtors were mostly agriculturists. Still the principle of fidelity towards promises is plainly visible in this rule. Again, the altruistic principle of self-sacrifice, that is, the subordination of the individual to the social interest, was inculcated by gratuitous service and contribution towards an indivisible reserve.

He insists
on honesty
by rigorous
rules.

When Raiffeisen was working out his scheme in the Rhineland, Schulze-Delitsch, the joint-founder

The early
endeavours of
Schulze—the
joint-founder
of this credit.

of this type of credit, was busy with a similar endeavour in Saxony. He also observed the poverty and indebtedness of the lower classes of producers, and, after experimenting with a friendly society and two or three associations for procuring raw material, believed that by co-operation their difficulties could be removed. During the early days of his labours, we have seen that he met with some opposition to his schemes from Lassalle. This economist was of opinion that the low wages of labourers were due to their low standard of subsistence, although the rule is just the reverse—wages and subsistence being related as cause and effect. Going further, it seems that such wages were in turn due to the demand for manual labour having lessened by the introduction of machinery during the industrial revolution. Lassalle believed, moreover, that the low profits of artisans and craftsmen could be raised by state-aided production, whereas such production had recently proved a failure in France. It is probable that these profits were diminishing also by the advent of new economic conditions, mainly by the competition of large-scale industry owing to its relatively low cost of production. However, since no positive opinion can be formed on these points at this time, we must leave on record the views of Schulze who differed from Lassalle and sought to reduce competition by co-operation.

Just as Raiffeisen adopted co-operation after many considerations, so Schulze had several reasons

for believing in this process. Not only did he think that the difficulties of the working classes arose out of the new system of competition, the evil effects of which could be reduced by co-operation, but that co-operation would prove a more effective process than reliance on the state which could not acquire a monopoly of industry, the alternative remedy against the new system. Moreover, it appears from the words he used in making up his programme, that, along with his other purposes, he desired to organize an institution somewhat similar to the old trade associations working under the guild system, and, that he believed in "the extraordinary power of the principle of association." Owing to these reasons, he adopted co-operation as the groundwork of his scheme, but since he desired to proceed by gradual stages, he described his first endeavour as a purely economic association of industrial workers, in which their professions could be carried on as before by each individual for his own advantage. This being the scheme of his 'advance-union,' its object was merely to advance capital to its members. How did he acquire this capital and lend it to them? Their credit had first to be organised and Schulze believed that this would depend more on a material than a moral guarantee. But how did he succeed in forming this material guarantee? We find that he devised his union in such a manner that at the outset each member had to buy an expensive share, although he could pay for it by instalments. He also combined the resources of

The principles in the system of Schulze.

His greater reliance on the material than on the moral basis of credit.

his members as the ultimate guarantee of their debts by the principle of unlimited liability. Moreover, he provided for a reserve fund in his union, although this reserve did not afford much guarantee for its credit. But considering that he took a sound, marketable security for every loan given to members, there was altogether a sufficiency of material guarantee in his system of credit.

The moral
basis in the
system of
Schulze.

As regards the moral basis of credit in the system of Schulze, it seems that there was little of it and this resulted mostly from the principle of unlimited liability. So far as it was necessary to minimise the risks contained in this responsibility, the union enquired into the character of members before their admission; but, after this scrutiny, beyond ordinary supervision, no special precautions were taken to ensure a continuance of their good behaviour. Moreover, there was no principle of self-sacrifice inculcated in his union. Although it is true that this particular ethical principle does not help individualistic credit to any noticeable extent, we could not doubt its utility in co-operative credit, owing to the manner in which it is connected with co-operation—the fundamental process in this type of credit.¹ We have seen in the beginning of our inquiry that self-sacrifice is the only means by which co-operation can be made permanent, and,

¹ The word 'individualistic' is used in this book to indicate a condition which is not co-operative, and the term 'individualistic credit' to mean credit which is created by the efforts of individuals, companies or corporations not working on co-operative principles but under the influences of the competitive system.

unless this is ensured, co-operative credit cannot endure.¹ If true co-operation is to continue, the interests of the self have always to be sacrificed when they come into conflict with the larger interests of the association, the self being served only through the fraternity. Hence, self-sacrifice becomes an important principle in such co-operation. Again, in the system of Schulze, self-sacrifice was dispensed with, since the founder believed that every labourer was worthy of his hire. This reason would be quite sound and legitimate under individualistic conditions. But when in a co-operative society—in which there should be a perfect fusion of labour and capital—you begin by fixing a return for labour, you very soon fix a return for capital, and thereby unconsciously introduce the principle of the wage-system. You also invite in its train some of the conflicting elements contained in the present *system of distribution*, namely, certain claims urged by labourers and capitalists as to what their respective legitimate shares should be under the various conditions in which they meet, to ascertain the validity of which economists have propounded numerous theories. Hence, when you introduce such a distinction in a co-operative society, you invite the very evils that you seek to avoid. It will now be quite easy to trace the connecting links between self-sacrifice—which here mainly implies gratuitous service or the absence of wages or the fusion of labour and capital—and the continuity of the spirit of co-operation. These

There can be no place for the wage-system in true co-operation.

¹ *Vide* Chapter III, pp. 42-44 in this book.

seem to be the principal ways in which self-sacrifice furthers the aims of co-operation. We shall see later on how it helps credit. Now, it will not be difficult to understand how for want of self-sacrifice the system of Schulze is not so truly co-operative in character as that of Raiffeisen. By the use of hired labour, his unions resemble somewhat the co-operative stores which gradually employ a staff on the wage-system. This disguised feature of individualism in co-operative distribution is the illogical method that gives rise to an evil which "expelled by the front door has tried to effect its entrance again by the back," as vividly described by an English economist.¹

Why the system of Schulze must be regarded as a foundation in co-operative credit.

But, although the institution of Schulze has a slender moral basis and is not thoroughly co-operative in character, it must not be supposed that his system does not constitute a substantial portion of the foundation of co-operative credit. We must realise that in this new section of exchange, co-operation is the fundamental process, the main function of which is to strengthen the material basis of credit, as we have already seen, and that there are other processes in this organisation which go to construct its moral basis by selection, education and control. These are the various methods by which *co-operative credit manufactures credit from its raw materials*. Now, in the system of Schulze, there is no essential defect in the process of

¹ *Vide* Price's "Economic Science and Practice," London, pp. 87, 88.

co-operation which is based on the principle of unlimited liability, as in the system of Raiffeisen; and, there is also in it a moral basis formed by the processes of selection and supervision. But the formation of this moral basis is distinctly deficient when compared to that of Raiffeisen. It appears, however, that this deficiency was remedied to some extent by the sounder material foundation in his system, inasmuch as he took valuable securities against loans given to members. Hence, we cannot say that, because the system of Schulze has a slender moral basis and is not thoroughly co-operative in character, it does not contain the fundamental principles of co-operative credit.

When the systems of the founders were established in Germany, a new type of co-operative credit soon appeared in Italy. There seems to have been a very pressing need for credit in the latter country about the middle of the last century, owing to the exorbitant rates of interest charged on loans given to poor Italians. No serious effort, however, was made to improve the condition of these unfortunate people, until the systems of Raiffeisen and Schulze had attained some success. Observing the relief that these institutions were bringing to poverty in Germany, Luzzatti decided to establish a similar system in Italy. Accordingly, after some experiments had been made with friendly societies at Lodi, Cremona and other places, Luzzatti founded his People's Bank at Milan in 1866. This scheme, as briefly expressed in his own words, was to

How this
credit was
planned by
Luzzatti.

'capitalise honesty.' From this conception, it is obvious that he believed in the moral basis of credit and knew that it could be utilized for the benefit of honest though indigent people. Then, from the system he adopted, it is evident that he realised the importance of the material basis of credit. Let us now see how he built upon these foundations.

Luzzatti capitalises honesty with the help of a slender material basis.

At the outset, Luzzatti laid down that only honest and reliable men would be taken into his bank as members, and, accordingly, he provided strict regulations for their admission. He further ruled that the loan committee (*comitato di sconto*) should make a searching enquiry before recommending any member for a loan. The main purpose of this enquiry was to ascertain the conduct of borrowers with special regard to their monetary transactions. Luzzatti also introduced his 'loan of honour' among very poor people. By this scheme he encouraged honesty and fidelity among them, and appears to have worked up a section of credit mainly on a moral and educative basis. This is certainly a remarkable development, since we believe confidence in credit to be based mainly on a material guarantee. We may explain, however, this peculiar section of credit from the observation we have made already, that when credit is given for purposes of production, the lender does not always depend entirely on solvency, that is, on any specific wealth of the borrower, but sometimes on the partial repayment of the debt from the return of the loan after its productive use. Hence, we find that loans are occa-

sionally given to borrowers who have no considerable wealth to show, but who utilise such loans in business in which they have made regular profits owing to their efficiency, provided these borrowers are also known to be trustworthy. Similarly, this loan in the Luzzatti system seems to depend on efficiency and integrity, and not on solvency as understood in the business world. Finally, Luzzatti inculcated the spirit of self-sacrifice in his members by gratuitous service. As regards the material basis of his credit, he devised small shares and a reserve fund. Although he must have understood the benefits of unlimited liability, we have seen the reasons why he had to adopt the principle of limited liability.¹ As regards the foundation of credit generally, Luzzatti himself observes that "in an ordinary joint-stock company the member's money is the main object considered, but in a co-operative credit association the person of the share-holder is of much greater importance than the share itself, since in the latter society the moral worth of the persons who compose it, united as they are for the purpose of obtaining by means of co-operation the credit which they would not find in other institutions, supplements and completes the material worth of the shares which are accumulated gradually and even in some cases by weekly instalments of a few centimes."

Luzzatti's
views on the
foundation of
credit.

Since the system of Luzzatti is formed on the basis of limited liability like ordinary joint-stock banks, can we say that it works on the same prin-

¹ Refer to Chapter IV, p. 53 in this book.

Limited liability does not change the fundamental process in the system of Luzzatti.

ciple, namely, that of individualism? Obviously not. In an ordinary joint-stock bank, the share-holders and constituents are mostly different people, the bank conducting its business generally with the outside public, a system by which the interests of the buyers and sellers of credit are kept distinct. As against this, the method is different with the *banca popolare* in which the interests of the buyers and sellers of credit are identical. Here the share-holders and constituents are generally the same persons who are members of the same bank. Hence, in the system of Luzzatti the very people who pay interest on loans receive the dividends of the bank, a method which contains the invisible ties of co-operation. Again, in this system there is gratuitous service or absence of wages or a fusion of labour and capital which is an important principle in co-operation. Therefore, we could not say that, because the *banca popolare* are based on limited liability, the system of Luzzatti is wanting in co-operation. Here, we also find that, although unlimited liability is the fullest basis of co-operation that we know—in fact, the broadest foundation upon which co-operative credit was first constructed—there may also be co-operation, though to a lesser extent, by means of limited liability, provided the share-holders of a society are generally the same as its constituents, as in the systems of the three organisers, and the wage-system is excluded.

If limited liability is not a distinctive feature of individualistic credit, it may well be asked what

then are the features that distinguish co-operative from individualistic credit—it being understood that by the latter credit is here implied all that great section of the credit system which is not co-operative? To begin with, we find that in the former section, credit is organised by a process of co-operation in which conflicting interests are destroyed between buyers and sellers as well as employers and employees dealing in such credit; in the latter, we know that credit is formed under the ordinary competitive conditions in economic life. Then, in the former, credit is manufactured from its raw materials and without any considerable aid from wealth; in the latter, credit is formed mainly by the existence of wealth and under the control of no organization, but at an advanced stage it gets some help from the banking system. As regards the causation of confidence in either section of credit, we observe that in individualistic credit, solvency is regarded more than honesty, and even in the consideration of solvency bankers prefer the security of bonds and stocks to the debtor's personal surety. But in co-operative credit, as expressed in the maxim of Luzzatti, honesty is placed before solvency, and, judging from the class of people among whom this credit operates, these qualifications are regarded in that order out of necessity. In this section the practice of ethical principles—such as honesty, trustworthiness, fidelity towards promises and self-sacrifice—serves as a moral guarantee for the fulfilment of obligations. Therefore, this guarantee is much

Distinctions between co-operative and individualistic credit.

The causation of confidence differs somewhat in the two sections of credit.

greater in co-operative than in individualistic credit. Finally, we observe that, as co-operative credit is a system of banking meant for the poor, (principally agriculturists), borrowers in this system are not expected to be solvent in the sense that this term would be used in the stock-exchange or in a joint-stock bank. Such solvency would imply wealth which may not be possessed by all the members of a rural society. So, to make up for this defect in solvency in individual members, the joint responsibility of all the members of a society is generally taken as the ultimate guarantee of their debts.

An enquiry
into condi-
tions ruling
interest in co-
operative
credit.

Having seen the distinctions between co-operative and individualistic credit, we may now see if there are any conditions ruling the rates of interest in co-operative credit disjunct from those that govern such rates in individualistic credit. Before we enter into this enquiry, we must first determine the nature of interest. Interest is the 'price paid for the use of capital'—loaned or unloaned—and not for the labour or esteem attached to credit which is merely the process by which loaned capital is obtained. When business men talk of interest on call loans, cash-credits, documentary bills and government bonds, they refer to interest on capital obtained by these forms of credit. In this connection, the following observations of Francis Walker may be quoted: "One borrows \$5,000 and gives a note for that sum with interest. With this money he purchases live stock, machinery for his factory or goods for his trade: these were what he wanted; these

were what he really borrowed; these are what he pays interest upon."¹ Describing a credit transaction, Professor H. R. Seager also points to this relation between capital and interest. "What the business man wants," he observes, "when he borrows from a bank is purchasing power. * * * What he really wishes is the goods to be bought for the purchasing power loaned him. It is for these that he is willing to pay interest."²

The reasons why capital is entitled to interest form the subject of numerous theories, old and new. These theories discuss the fundamental questions regarding interest and have little concern with our inquiry.³ We are trying to ascertain merely if co-operative credit is subject to any special conditions which affect its rates of interest. Having seen that interest derives its origin from capital, we must find next the conditions connected with capital which bring about the rise and fall of interest. These conditions may be described briefly as follows:

The general conditions which bring about the rise and fall of interest.

(1) If the demand for capital is great, the rate of interest tends to rise; if the demand is small

¹ *Ide* "Political Economy," by Walker, London, 1892, p. 219.

² *Ide* "Introduction to Economics" by Seager, New York, 1907, p. 333.

³ The *theories of interest*, which give reasons for the existence of interest and discuss the legitimate share of the capitalist in the present system of distribution, are well described and criticised by Böhm-Bawerk (himself the best exponent of the *time theory of interest*) in his well-known books "Capital and Interest" and "The Positive Theory of Capital." These *theories* have been recently reviewed in an article on "Interest Theories, Old and New," by Frank A. Fetter in the *American Economic Review*, March, 1914.

the rate tends to fall. This demand is in turn influenced by the productivity of capital. So long as producers find it lucrative to employ capital and to the extent that they find it so—owing to natural resources or labour being abundant, to increasing consumption, to industrial efficiency or some other favourable situation—the demand for capital will increase, and, in consequence, the rate of interest will rise. According to the new theory of ‘final utility,’ the rate of interest is determined by “the return from the least productive application of capital which must nevertheless be made in order to find investment for all the capital that seeks it.”¹

(2) If the supply of capital is great, the rate of interest tends to fall; if the supply is small, the rate tends to rise. This supply depends in turn upon the amount of wealth in a country, upon the credit that the country has in the financial world so as to enable her to borrow foreign capital if necessary, upon the existence of good credit institutions in the country able to manipulate her wealth, and upon the trust which her capitalists have in their business people. If they have no trust, they will not lend out their capital, however abundant it may be or however lucrative its prospects of employment, but they will utilise it themselves or hoard it unproductively.

The conditions we have just examined show us that the rate of interest is determined by the demand

¹ *Vide* Röscher's “Principles of Political Economy,” translated by Lalor, Book III, Chapter IV, §183.

and supply of capital, but they do not indicate precisely the ways in which the demand and supply of capital are regulated. However, as our object is not to ascertain the laws of interest, but to see if co-operative credit is subject to any special conditions which affect its rates of interest, we shall proceed with our enquiry. The aforesaid conditions show us that the supply of capital in a country depends to a large extent upon her credit system, especially upon the security and risk attached to methods by which capital is organized and circulated in the country. These are the main conditions, among those regulating the demand and supply of capital, which are connected with credit; but, we find that they are connected with *credit generally* and not particularly with co-operative credit, since both individualistic and co-operative credit in their last analysis are only forms of credit and subject to the same conditions of security and risk. Therefore, we may conclude that co-operative credit is not subject to any special conditions which affect its rates of interest. Here we may add that the great difference in the rates of interest which co-operators pay before and after the formation of their society, is due mainly to the risk and security respectively attached to their credit. We cannot say that in the latter situation, the rate of interest falls because the demand for capital lessens. Although co-operators go no longer to their money-lenders, the demand for capital increases in the locality, since the society now borrows more than the individual members did before their co-operation.

There are
no special
conditions
affecting in-
terest in co-
operative cre-
dit.

The max-
ims of the
founders and
their result-
ing methods.

Among the principles embodying rules of conduct laid down by the founders were self-help and self-sacrifice. How such opposite principles served to secure the same purpose, which was co-operative credit, is an instructive study. Schulze taught self-help in a practical manner to his people as against the policy of dependence on the state, because he was clearly opposed to the schemes of Lassalle with regard to state-aid in production. Starting with this conviction, Schulze modelled his scheme upon self-help as an initiative principle. If this was not so, he would not have devised expensive shares as a plan for obtaining the initial funds of his society. When his societies flourished, it appears that the continuance of this principle intensified the natural selfishness of members and led them to self-seeking in the way of dividend-hunting. This desire had the tendency to destroy the co-operation between members as share-holders and constituents, and, subsequently it led to some of his societies being converted into joint-stock banks. Consequently, his scheme had to be modified by a reduction in the rate of dividend and the value payable on each share. We must admit, however, that the principle of self-help, which in co-operation should develop into mutual help, was of assistance to members in providing them with a material guarantee before they could join his institution. In fact, it is needless to add that under individualistic conditions self-help is of considerable economic utility. But, it is equally true that in co-operation it fails to attain

its purpose, since the introduction of self-help in a co-operative society leads to friction and competition among members by which their strength gradually wears out. Hence, self-help in co-operation tends to destroy the very means by which its ends should be served. We find that, on the other hand, Raiffeisen adopted self-sacrifice as an important principle. If it was not so, he would not have devised the plan of gratuitous service and of the 'indivisible reserve.' We then see that this principle helped him to construct a sounder edifice in co-operation which gradually obtained credit for a larger number of destitute people than the scheme of Schulze.

If it is now asked how such different methods, working in obedience to opposite principles, helped to bring about the same end which is co-operative credit, we should say that it is because the means adopted for the attainment of an end need not always be the same. In the organization of this credit, self-help (if used in the sense conveyed by self-reliance) and self-sacrifice may be both useful, each in its proper time and circumstance—the former as an initiative principle as in the scheme of Schulze, the latter as a permanent one as in the systems of Raiffeisen and Luzzatti. When co-operators are helpless and ignorant, it is time to teach them to help themselves by assisting one another to build up their society, because the help which they seek will come to them not by any individual effort but through the labour and honesty of all. Mutual help, which conveys the idea more correctly than

Self-help in co-operation should imply mutual help.

self-help, should then be the principle. But when co-operators improve their position and display a desire for high dividends or to shut out new-comers, then their spirit of self-sacrifice should be brought fully into play on the ground that co-operation cannot otherwise continue. Teach them self-help, if you like, as against reliance on the state or on the help of outsiders, so long as they can use it merely as an initiative principle, but you will not require to teach them the pursuit of their selfish interests, for this will come to them as the natural result of their intelligence. This course may seem to be eclectic, but, at any rate, it is the wisest that the experience of organisers, not merely the maxims of moralists, have taught us.

How self-sacrifice helps credit among the poor.

We have seen already how self-sacrifice helps co-operation by the subordination of the individual to the social interest and the avoidance of competition among members as capitalists and labourers. We shall now see how this principle helps credit among poor people. It is obvious that if such people were to employ a staff of salaried officers in their society, they could not afford to give loans to their members at a low rate of interest, and so their credit institution would be of little benefit to them. Then, we have seen that bankers have to perform small offices for their depositors without any remuneration so long as they are in need of deposits. So, we find that credit cannot be established without the practice of a little self-sacrifice by those who are in want of capital. In the systems

of Raiffeisen and Luzzatti, self-sacrifice implies mostly gratuitous service, that is, occasional labour without any immediate return, but with the ultimate compensation of cheap credit. Now, cheap credit in place of usury has a value—the difference between the amounts of interest—which may be said to arise partially from this self-sacrifice.

Our inquiry into the causes of confidence in the two sections of credit leads us to a conclusion which is of fundamental importance to the credit system. Does this investigation show us that confidence in credit arises exclusively from either a material or a moral guarantee? Obviously not. On the contrary it shows that there can be no sound and progressive credit resting even extensively on one of these foundations. We have seen that in the past ages there was generally too great a reliance on the material basis.¹ This was due to little mutual confidence among business men as a result of the slender means of transport and communication, and also to credit being then given generally for consumption which meant the destruction of the value of the loan, thus compelling the creditor to depend almost exclusively on some specified wealth of the debtor for the repayment of the debt. A remnant of this credit continues to this day in the method of mortgage and lien upon goods, but in this method credit fails

Too great a reliance on the material or the moral guarantee does not help credit.

¹ When we say that in the past ages there was too great a reliance of credit on material securities, we do not mean that there was no personal credit but merely that the predominant character of credit in those ages was impersonal or what is known as 'real.'

to display two of its most important functions, as observed in the last chapter. Consequently, this process of credit has not shown any development, and it is doubtful if it can be classed as credit which has been defined as "the exchange of present wealth for future wealth." Similarly, the 'loan of honour' in the system of Luzzatti and the debts of honour contracted in private life, which depend almost exclusively on a moral guarantee, can hardly be included in any sound system of credit.

Modern credit tends to equalise its dependence on guarantees.

As compared to the great reliance on the material basis in the past ages, credit tends to depend more upon the moral basis in modern times. This is due to the fact that men can now ascertain and thereby depend on one another's business conduct owing to an intensive system of exchange, and also because an almost exclusive reliance upon specific wealth is not essential, as credit is now given generally for production, in which the value of the loan continues to exist and at least helps the debtor to repay his debt, provided he is trustworthy. The old saying that only the rich can borrow was true so long as there was too close an adherence to the material guarantee, but since the productive use of the loan and the personal character of the debtor have come to be specially considered, business people of ordinary material resources also get credit, and co-operative credit now shows that even the poor can borrow so long as they can combine their material responsibility, establish a moral guarantee and take loans only for productive purposes. Accordingly, at the

present day there seems to be a more equal dependence upon the material and the moral foundations, and credit has developed its functions so extensively that it has become a substitute for metallic money.

In defining the real nature of credit in modern times we cannot forget this extensive foundation as compared to its slender basis in the past ages, for it is owing to this widening groundwork that credit has evolved from a simple to a complex process. In connection with the development of this system, the notion of 'spiral evolution'—that is, of credit progressing from a 'personal' to a 'real' type and back again to the 'personal' type—may indicate its predominant character in particular periods by adaptation to economic environment, similar to the idea that we have regarding the stages of industrial evolution. But this 'spiral evolution' in credit should not convey the impression that credit depends solely on either a material or a moral basis, no more than that factory economy should imply that industry at the present day is made up solely of the factory system to the exclusion of all other types. We know, for instance, that at least agriculture has always been carried on as a home industry. Hence, from the facts revealed by our inquiry into the causes of confidence in credit, we are led to conclude that the concept of modern credit must be founded both upon the material and moral guarantees—not solely on one of them—and, that apparently these foundations are closely connected, since they seem to affect each other's growth. They are, perhaps, intersticed,

Modern credit is based on an extensive foundation.

as certain biologists now think with regard to mentality and vitality.

The functions of co-operative credit.

The history of co-operative credit shows that it has organized funds for poor people under varying conditions all over the world for over sixty years. This goes to indicate that it is a form of credit which is useful universally under modern economic conditions. Moreover, our enquiry into its nature and methods leads us to conclude that it is a process in the exchange of wealth possessing the following functions:

1. It develops moral and material guarantees for the purpose of creating confidence the basis of credit.

2. While doing so, it combines the credit of the many to organize capital for the few.¹

3. In common with individualistic credit, it collects small sums of money from various sources where they produce nothing and utilizes them for productive purposes.

4. Along with individualistic credit, it serves as a medium of exchange. Its function, however, as such a medium is restricted, because the credit instruments of members of co-operative credit societies seldom exchange in the financial market. We are aware of such instruments, only when accepted by the *Banca Popolare* at Milan, being discounted by other banks in the town. The credit instruments

¹ All the members of a credit society cannot expect to get loans until the society prospers and has sufficient funds. Until then it may be said that the needy members get the benefit of loans and the well-to-do find a safe investment for their money.

of societies themselves are, however, negotiable in local financial markets and they circulate as readily as checks and drafts.

5. To the extent that this credit serves as a medium of exchange, it also serves another function in common with individualistic credit, and that is the economy it effects in the use of metallic money. These two functions, possessed by both sections of credit, are noticed to a large extent in communities which have attained industrial efficiency and have a proper code of business ethics. Where the material guarantee and the business morality of borrowers are great, it is obvious that credit will develop its functions more freely than in communities less advanced in these respects.¹

The benefits which co-operative credit has conferred on the poorer classes of producers in the competitive age cannot be ignored. There is scarcely any doubt that this section of society desired eagerly for means by which their business could be carried on and their poverty relieved, and, that when this credit was established, it satisfied their long-felt wants. We may infer, therefore, from the facts we

The utilities
of co-operative
credit.

¹ Credit is such a difficult device that its slightest inflation upon unsound foundations—such as uncertain material securities, defects in the code of business ethics, industrial inefficiency or an imperfect system of state regulation with regard to banking—is likely to lead to disaster, as recently experienced in India, which generally sets back for many years the development of the credit system in a country. Speaking of credit as a social system, rather than as an individual process, the most delicate portion in its mechanism seems to be *the scale on which circumstances of security and risks are balanced* with the purpose of maintaining the *stability* of credit.

have observed with regard to co-operative credit, during the last sixty years or so, that it has the following utilities:

1. It provides a method for the transfer of capital to producers who are deficient in this essential agent of production.
2. By organizing capital for small producers, it helps to maintain agriculture, handicrafts and retail trade.¹
3. By improving the material position of the poorer section of industrial society, it removes poverty and indebtedness.

The circumstances under which co-operative credit was devised.

If we now inquire historically into the circumstances under which co-operative credit was devised, we shall find that there was a pressing need for it by the advent of new economic conditions and the time was ripe for its institution. We have seen that at the end of the eighteenth century the industrial revolution commenced in England with the application of science to industrial life. This resulted in the competition of scientific power with manual labour which led to the growth of the wage-system, to the divorce of capital from labour, to the complete disappearance of the old trade associations following the mediæval guilds, and, finally, to the establishment of the factory system. In the mean-

¹ The bulletins of Economic and Social Intelligence issued by the International Agricultural Institute at Rome and the reports of the International Co-operative Congresses held at different centres in Europe since 1895 show to what extent co-operative credit has helped to develop agriculture and maintain small-scale industry in Europe.

while, serious attempts at co-operation were made in several countries, particularly about the middle of the last century. In 1844 the first attempt at co-operation—known as distributive co-operation—was made in England by the Rochdale Pioneers' Association. After the revolution of 1848 in France, the State granted a subsidy of nearly three million francs for co-operative production by national workshops. In 1849, the first step, also in co-operative production, seems to have been taken in the United States of America by the formation of the Boston Tailors' Union. Then, in the years 1849 and 1850 we find that both Raiffeisen and Schulze laid the foundations of co-operative credit. When the effects of the new order of competition, brought about by the introduction of science into industrial life, were beginning to be felt in the spheres of production and distribution, it was only natural that those who were pressed hard by them should have attempted to devise some means by which their difficulties could be removed; and, we know that co-operation is one of the methods that come naturally to men in times of great difficulty. Therefore, in the new economic order, improved methods of co-operation seem to have been the natural results of the modern system of competition. But while the application of science to industrial life is only a particular stage of economic evolution, there seems to be no escape from the permanent, if not growing, pressure of the 'law of population.' Hence, by the natural tendency that we have just observed, the

The modern competitive system was a direct cause in the organisation of this credit.

methods of co-operation must continue to develop along with the growth of competition. The struggle for existence, as it appears from our present competitive system, seems to be a phenomenon co-existent with that of the mutual dependence of men, as evident in our economic life by the division of labour, the system of exchange and the need of trust in business.¹ Possibly, the simultaneous existence of these two phenomena in the smallest groups of industrial society, teaches us that in life egoism is the end but altruism is the means, a doctrine which, by the mutual help implied therein, should be taken to indicate the fundamental importance of co-operation to human society.²

¹ The 'doctrine of solidarity,' which is here referred to, was not unknown to the classical economists, and it has been recently explained by Professors Charles Gide and R. T. Ely. It is possible that the mutual dependence of men originally created the demand for the means of transport and communication.

² "From the dawn of life, then," says Herbert Spencer, "egoism has been dependent upon altruism as altruism has been dependent upon egoism." *Vide* Spencer's "Principles of Ethics," London, 1890, Vol. I, p. 215.

APPENDIX

A RECORD OF FACTS

COMPETITION

In support of facts from which the conclusion has been drawn in Page 15 that "keen competition tends to degrade human nature," we reproduce the following extract referring to the 6th International Congress of Chambers of Commerce which was opened on June 8th, 1914 at the Sorbonne in Paris under the presidentship of M. Peret, the French Minister of Commerce :—

"The most interesting question discussed to-day (9th June) was the subject of an international convention to deal with various forms of *unfair competition*. In commerce the drafting of such a convention, embracing many difficult questions, such as bribery and corruption, fraudulent imitation of trade-marks and defamation, would be a very complicated problem, and several of the German delegates were of opinion that the subject was too immense to tackle. British and American representatives, however, urged that it should at least be carefully studied. British legislation against bribery and corruption was instanced as a good example of comprehensive legislation in one branch of the question. Sir Algernon Firth, President of the Association of Chambers of Commerce of the United Kingdom, spoke strongly in favour of an effort being made, and a resolution was finally adopted suggesting that a special committee should study the subject in all its aspects and present a report to the next conference."—See *Indian Trade Journal*, July 2, 1914, Calcutta, issued by the Government of India.

THE RAIFFEISEN SYSTEM.

A description of the Raiffeisen System in Germany was sent to the 1st International Co-operative Congress, held in London in 1895, by Dr. Th. Cremer, President of the Raiffeisen Union at Neuwied (*Verband Ländlicher Genossenschaften für Deutschland*—the Union of Rural Associations of Germany). The undernoted extracts are taken from this description given in the Report of this Congress:—

“The Union of Rural Associations which adheres strictly to the principles laid down by the late F. W. Raiffeisen, has long since made good its footing all over Germany. First established in 1849 in the Rhenish Westerwald, this system still obtains proportionally the largest support in Prussian Rhineland and in the adjoining province of Hesse-Nassau, in which two districts its associations numbered in May last no less than 604. However it has long since spread into Saxony, Thuringia, Alsace, and even into the remotest corners of Eastern Prussia and Silesia, and, indeed, far beyond the boundaries of Germany. And wherever its principles have been strictly carried into practice, and more particularly the safeguard of rigid and searching auditing and checking of accounts has been insisted upon, it has been found to ensure alike success and safety, making of its adherents better men, while bringing them valuable economic relief. The leaders of the movement are anxious rather to have none but good associations in the Union, than to multiply the number of affiliated societies. The figures of societies owning allegiance to Neuwied stood in May last at exactly 1600, and by far the larger number of these, namely, 1563 were registered as credit societies. In addition there were 22 dairy and 15 vinegrowers’ associations. The numbers have increased since. It ought to be pointed out that a considerable majority among the societies referred to, being forbidden by the rules to engage in any trading on their own account, have co-operative supply associations organized by the side of them, consisting of very nearly the same persons. The ‘Union,’ therefore, really represents a very much larger volume of co-operative work than is indicated in the figures quoted.”

“The idea upon which the system, still popularly named after its originator F. W. Raiffeisen, is built up, is that of strict community

of interest and of liability between members. As the system was first conceived, there was to be no tax of any kind levied upon incoming members, neither entrance fee nor share or '*part sociale*'; but the member himself, it was insisted, should be selected with great care. The system was never intended for any but rural districts of very circumscribed area—an area so small as to ensure that within its limits members must be tolerably well known to one another and continually under one another's observation. Granted such conditions, it was assumed, and in practice it has been found, that a number of persons, rich and poor joining together, and pledging themselves one for all and all for one, may raise by credit only all such sums of money as they may stand in need of, to supply the demands of individuals. The power of granting long credit is of the essence of the system, inasmuch as for agricultural purposes long credit is absolutely indispensable, and it is no relief to give to a poor man short credit when long is required. Since the object of every loan is inquired into, and borrowers are held to it; since punctual payment of interest and repayment of principal by instalments is rigorously exacted, and, since members are all under one another's eye, and moreover the society secures itself by sureties—loss in lending can be, and as a matter of fact has been, guarded against with very good effect. The societies generally have very good credit among depositors as well as among capitalists, and are steadily increasing in strength. One very important feature in the system is that there should be no profits, no salaries (except a small one to the secretary), no pickings of any kind obtainable from the bank. Services must be gratuitous, and all profits realized must go to a reserve (*Stiftungsfond*), belonging absolutely only to the society as a whole and never to be shared out, and increasing till it becomes an impregnable rock of solvency to the association."

"Rural associations group themselves together in Provincial Unions, each with its own managing committee; and embracing all these there is a General Union, governed by a central committee, which has its seat at Neuwied, and at present employs about seventy paid officers. Of that number twenty-four are 'inspectors,' engaged almost continually in travelling from association to association, auditing and checking accounts, and delivering lectures, in order to make the Raiffeisen principle more widely known. By this means old associations are kept safe and new ones are being steadily added to the Union."

“These associations, all of them, grant loans and receive deposits. To equalize their transactions and serve as a general reservoir, receiving surpluses and meeting demands for money, the ‘Union’ has formed a ‘Central Bank’ which has its seat at Neuwied, but which has for the further convenience of its constituents already established several branch banks in suitable centres, and is about to increase the number of such branch establishments to ten. The great utility of such central and branch institutions has been recently pointed out in the German Parliament by the President of the Imperial Bank of Germany, Dr. Koch. The Central Bank, which is admitted to the privilege of discount transactions with the Imperial Bank on most favoured terms (at present the discount stands at two per cent), is in a position to grant loans to local associations on very easy terms (4 to $4\frac{1}{2}$ per cent according as the loan exceeds or falls short of 10,000 marks), and to pay them $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent on deposits, giving the preference to amounts below 10,000 marks. Its turnover in the past twelve months was about 23,000,000 marks. The expenses of management are very small. The profits realized last year are about 81,000 marks. The Central Bank is a joint-stock enterprise, for which the necessary capital has been raised by shares, the amount of which absolutely limits the liability of every holder. The capital taken up now stands at 2,550,000 marks, the amount paid up at 1,300,000 marks. A few of the shareholders are individuals, the bulk are local associations. But no association is compelled to take up shares. The Bank does business with associations whether they do so or not. As a matter of fact 1514 out of the 1600 associations have become shareholders.” (*Vide* “Report of the 1st International Co-operative Congress,” pp. 301-304).

The undernoted extracts describing the Raiffeisen system in Germany are taken from Nicholson’s “Report on the Possibility of Introducing Land and Agricultural Banks in the Madras Presidency” :—

“A Raiffeisen bank is simply a village society of agriculturists, labourers and shop-keepers united for common interests; at first a few of the better class unite; these by example and precept draw in others. The first steps are hard, but once fairly started there is little difficulty, as the advantages are manifest to all. It is considered that

the village should have not less than 400 nor more than 2000 inhabitants; several small villages may unite if too small for a separate society. This principle of restricted area is deemed essential; the bank is thus at the borrower's doors. It can be administered gratuitously and by the most trusted men of the community; it has a perfect knowledge of the candidates and can reject all unworthy of the honour who would be likely to discredit the society; it tends, therefore, directly, by reason of the advantages of membership, to encourage or to incite men to industry, thrift and sobriety."

* * * * *

"It (this bank) has a perfect cognizance of the solvency and status of would-be borrowers, and it can and does examine the purpose of every loan and enforce its due employment, for in a village all is open to the eyes and ears of all; it establishes among the members the bonds of confraternity and tends to substitute association for suspicion, healthy and active communal, yet personally free action for individual isolation and inertia; it forms a centre of local progress and reform. All are admissible even the poorest, who satisfy the administration that they are worthy of membership, and, as will be seen in Italy, the mere possibility of joining a society has reclaimed men from drunkenness and extravagance, and has given them an impetus to sobriety, industry and even to education in its ordinary sense."

* * * * *

"The chief features are (1) that the society is absolutely local, the limits of a commune (village) being strictly maintained as the limits of membership and of operation: (2) that the administration is equally local, members alone being eligible for appointment, and is absolutely gratuitous; (3) that there is but small share capital, all funds being borrowed on the guarantee of solidarity and eventually of the reserve; (4) that there are, therefore, no dividends to pay, and all profits go to the reserve; (5) that only members, who must be residents of the commune, can get loans; (6) that loans may be of long term extending to ten or even twenty years; (7) that, as far as possible, all funds are the result of local thrift. * * * Raiffeisen allows no dividends, but only market interest on deposits, and all further profits go to a reserve; there is but small share capital which is intended (1) for the ordinary purposes of a reserve.

(2) for purposes of public utility. * * * Raiffeisen, while anxiously promoting thrift, desired to guide the peasantry towards unselfishness and public spirit rather than to individual profit."

"The society always has a board of directors, a council of supervision, a general assembly and an accountant. Regarding these organs Raiffeisen said 'the directors decide, the accountant executes, the committee of supervision oversees.' The directors elected by the general assembly represent the society and have the management of affairs, * * * the internal work of the office, the inquiry into and grant of applications for loans. * * * The council of supervision has a general control. * * * The general assembly is the source of all power and is a petty democracy. It decides the general rate of interest to be demanded from borrowers and is likely to keep this as low as possible since all the members are probable or possible borrowers. * * * The confidence of the people in the great security offered by the solidarity of the societies, most of whose members possess some material property, is shown by the fact that in the great war of 1870-71 any amount of funds was offered to these societies without interest, capital seeking security only." (*vide* Nicholson's "Report on Land and Agricultural Banks," Vol. 1, pp. 147, 150.)

A very clear exposition of the Raiffeisen system, as it exists in Germany at the present day, is given in the "Report to the Board of Agriculture of an Enquiry into Agricultural Credit and Agricultural Co-operation in Germany" (presented by His Majesty's Command to both Houses of Parliament) by J. R. Cahill, 1913, London. The undernoted extracts are taken from this Report:—

"At the present time the majority of Raiffeisen banks in Germany may be said to present the following features:—

limitation of area, so as to secure mutual personal knowledge on the part of members;

low shares;

permanent indivisible reserve fund;

unlimited liability of the members;

loans only for productive or provident purposes; loans only to members;

credit for relatively long periods with facilities for repayment by instalments;

the determination every year by the members of each society of the maximum credit that may be held by individual members at any time as well as of the maximum total of savings deposits receivable and of loans that may be taken up by the society;

absence of profit-seeking, dividends if paid being usually limited, as a maximum, to the rate of interest paid by borrowers for loans;

office-holders, with the exception of the secretary, not paid for their services;

promotion of the moral as well as the material advancement of members, and in particular the purchase of agricultural requisites for sale to members and often the procuring of agricultural machines and implements for letting on hire to members." (p. xv.)

"The principal functions of Raiffeisen banks are: (1) to meet the needs of their members for supplementary personal credit or current working capital, (2) to promote thrift among the rural population by receiving their savings as well as the savings of non-members and paying interest thereon, and (3) to act in general as the village banker." (p. xvi.)

"Loans are secured for the most part on personal bonds backed by sureties, but mortgage security is not uncommon in certain districts. The committee usually asks the purpose of the loan, and usually enters this in the minutes of the transaction. Many of the more developed societies do not ask the question, being only concerned with the standing of the borrower and of his sureties." (p. xvii.)

"From the beginning Raiffeisen recognized the necessity for combination among rural credit societies so as to provide them with a permanent centre at which depositing and borrowing might be advantageously transacted by non-profit-seeking organizations which at once understood and took account of the special financial structure of co-operative societies and of the conditions of their business. At

the present time over 90 per cent of the rural credit societies are share-holders or members of co-operative central banks, of which there are nearly fifty (including as separate banks the twelve branches of the Raiffeisen Central Loan Bank) in Germany." (p. xvii.)

"These central banks are organized according to provinces or states. The German Agricultural Central Loan Bank, founded by Raiffeisen in 1876, extends its operations over the whole of Germany, but it has decentralized its business by the creation of 12 branches, which limit their operations to fixed areas co-extensive with a province, part of a province or adjoining provinces, a state or congeries of small states, and which form in fact provincial banks." (pp. xvii, xviii.)

"The central banks lend money to credit societies at rates which vary according to market conditions; but the normal rates of interest for advances within the ordinary credit, as allotted periodically to each society, range from $4\frac{1}{2}$ to 5 per cent. * * * The cheapness of this credit appears more striking when it is recollected that ordinary commercial credit in Germany is dearer than in England." (p. xvii.)

"Rural co-operative societies are not profit-seeking speculative undertakings, and German rural societies have found that the capital on which they mainly depend, namely, savings deposits of members and non-members, tends to remain with them for long periods. Should a sudden call come which they are unable to meet out of their immediate resources, their solvency is practically assured through their central bank." (p. xviii.)

"In Germany the success of the movement was largely the result of the intensive propaganda carried on continuously from many sides as well as of the effective assistance of the state." (p. xx.)

Referring to the usury practised upon German agriculturists in former years, the aforesaid Report contains the following remarks:—

"The extent and ravages of the usury practised upon them in various parts of Germany have been described by many writers, notably in the volume of the Association for Social Reform entitled 'The Personal Credit of Small Landed Proprietors in Germany,' and in 'Usury in the Country.' Rural credit societies have contributed more than any other factor towards the almost complete disappearance of these gross forms of usury." (p. 72).

**Model Articles of Association issued by the Raiffeisen
Federation in 1910. (Extracts.)***

1. The undersigned establish, within the terms of the Imperial Co-operative Societies Act, a co-operative society to promote the economic interests of its members by means of business operations in common, under the trading title of the.....Savings and Loan Bank Association, registered co-operative society with unlimited liability. The association has its seat in.....

2. The object of the society is to procure the necessary capital for furnishing loans and credit to the members, and to effect by further measures the improvement of the economic situation of the members, especially by

- (a) the purchase in common of farm requisites,
- (b) the raising and sale of farm produce and of the products of rural industry for common account,
- (c) the procuring of machines and other objects of utility on common account for letting on hire to the members.

3. The Association aims less at realizing profits from its business than at strengthening those economically weak, and at promoting the intellectual and moral welfare of its members. Its activities must accordingly extend to :

- (a) the furtherance of thrift,
- (b) the accumulation of an indivisible association fund (foundation fund) for the promotion of the economic conditions of the members,
- (c) the organization of means for the cultivation of rural social welfare and love of home,
- (d) the establishment of conciliation courts of the association for the purpose of checking litigation,
- (e) the active opposition to such transactions in real property as are against the public good, and such participation in the relief of landed property from debt as may be expedient,
- (f) the holding of instructive lectures and the exchange of practical experiences at the meetings of members.

* Reproduced from the Appendix given in Cahill's "Report to the Board of Agriculture."

4. The association rests upon a Christian and patriotic foundation. At meetings and in all the activities of the association opinions and measures of a religious or political character are absolutely prohibited.

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12. Each member has the right :—

- (a) to deposit surplus money at interest with the association, in so far as the means for employment of same exist ;
- (b) to apply to the association for loans or credit upon the conditions laid down in the articles to the extent of the means open to the association ;
- (c) to participate in the common supplying by the association of farming necessities, in the use of the machines and implements belonging to the association, as well as in its other undertakings ;
- (d) to be present at the meetings of members and to take part in the deliberations, voting and elections of the association ;
- (e) to examine the minute book of the meetings of members ;
- (f) to demand, at his own cost, a copy of the balance-sheet and of the annual account previous to the passing of the balance-sheet by the meeting of members.

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14. The organs of the association are :

- (a) the committee of management.
- (b) the board of supervision,
- (c) the meeting of members.

Only members of the association may be elected members of the committee of management or of the board of supervision.

15. The Committee of Management shall consist of five members chosen by the meeting of members, of whom one is appointed chairman, a second his deputy, and the remainder assessors. The period of appointment shall be four years.

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23. The Board of Supervision shall consist of from three to nine members chosen by the meeting of members, one of whom is appointed

to be chairman and another his deputy. The number should always be divisible by three. The term of appointment is three years.

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57. The assets of the association, inclusive of the reserve fund and the foundation fund, are the property of the association, upon which the individual members have no claim; nor may they demand any division thereof. Neither past members nor the heirs of past members have any claims upon the said property. In case of dissolution of the society, its property is to be made over to the Agricultural Central Loan Bank for Germany, or to some institution authorized to accept trustee funds, for the purpose of adding interest to capital until one or more new associations have been formed on Raiffeisen principles covering substantially the area embraced by the former association.

* * * * *

THE SCHULZE SYSTEM

An account of the Schulze system in Germany was given in the 1st International Co-operative Congress by Dr. Hans Crüger, Chief Secretary of the Federal Union of German Industrial and Economic Societies—*Allgemeiner Verband Deutscher Erwerbs-und Wirthschafts-Genossenschaften*—the Schulze-Delitzsch Union in Germany. This account is reproduced here from the Report of this Congress:—

“The first societies of artisans and workmen based upon the self-help of those taking part in them were called into being by Judge Hermann Schulze-Delitzsch—who was born 29th August 1808 and died 29th April 1883—in his native town of Delitzsch. Those associations were intended to divert the working classes from the path of those aiming at state support, guilds with compulsory membership, and at centralization from above. The movement has developed, on the initiative of the people, with slow and steady progress. * * * In the autumn of 1849 Schulze founded in his native town the first ‘Association for procuring Raw Material,’ a society formed by thirteen master joiners on the same principles on which he had already called in to being a friendly society, providing a fund for sickness and death.

The purchasers were to be members of the society, and it was to be under their own control. At the end of the same year the shoemakers united in a similar society. The result obtained led to the formation of a Shoe-makers' and Tailors' Society at Eilenburg in 1850. There, no less, the result was favourable, and Schulze took care that such good result should become more widely known. In a short time there sprang up in Saxony and Bavaria a large number of 'Associations for procuring Raw Material' especially in the shoe-making trade."

"In the numerous associations of this kind then in existence the discovery had been made that the unlimited liability undertaken by the members for the credit of the society had procured them very good credit. In Eilenburg, Dr. Bernhardt and one Bürmann, a master-tailor, accordingly applied the same principle to the credit association of the place, on the theory that the 'union of several small businesses makes one big one,' and men should combine with others to effect what they cannot carry through alone. 'All for one and one for all,' that was the simple principle which was to produce such brilliant results in practice, and on which Schulze-Delitzsch has democratized credit. Owing to the unlimited liability of the members, the credit association in Eilenburg was enabled to take up an independent position, and to do away with every outside assistance."

"In other countries people had some difficulty in understanding how Schulze succeeded in upholding so long the principle of unlimited liability as the only permissible one. In 1858, he took the opportunity of uttering a polemic on this point. 'Unlimited liability is a matter of fact, not a mere theory, not a doctrinaire scheme; without it nothing can be done, and no money can be obtained. . . . To these principles (unlimited liability and self-help) we hold firmly, considering them to be the only principles justifiable in economy, and rejoice to detect in them not merely what is justifiable by argument, but moreover, what is particularly suitable to the *character and manners of our people*.' Moreover, it should be remembered that the Credit Associations soon took the foremost place among co-operative societies, and that they require credit in a much larger degree than any other kind of society. They were building up a new form of enterprise, which had first to gain the confidence of the business world. Finally, to explain the ready acceptance of unlimited liability, at the outset the circumstance was decisive that

in Prussia, where the societies originated, this was the only system recognized by the law, and that the law, no less than the custom of the country, demanded unlimited liability."

"For the rest, in the sixties, opposition to this collective liability was raised by some societies not dependent on such far-extending credit--by associations of consumers; but it soon came to an end, and never spread far. The admission of limited liability *by the side of* unlimited has in later time resulted only from the economic development of the societies. Schulze himself desired it when the time would be ripe for the change. This happened when a part of the credit associations had acquired sufficient business importance to enable them to offer adequate security, while discarding unlimited liability, and disposed them to convert themselves into what may be termed capitalist associations. Such contingency Schulze wished to avoid, since an association of capitalists can never afford to artisans in need of credit the same service as a co-operative society, and is far from having the same effect upon their character. In order, then, to keep these societies truly co-operative, Schulze recommended that limited liability should be tolerated. This point of view was reinforced by the fact that in the course of time those societies had very much increased in strength which needed either very little or no credit at all, as for example, the Unions of Consumers, and for such the limitation of the liability for their members could be only helpful. * * * The aims of this Union (the General Union of German Trade and Economic Societies) are—

- (a) the furtherance of co-operation in general.
- (b) the development of the constitution and the institution of allied societies,
- (c) the protection of common interests by united efforts and resources,
- (d) the formation of mutual business relations between societies."

"The Union is a means for the interchange of the experience gained, for counsel and help in any case of attack or difficulty which may embarrass individual societies, for the powerful union of their strength, for the prosecution and maintenance of common interests, for defence and unity in the face of threatening situations and dangers, for the formation finally of business relations among its members.

The Union defends the interests of associations publicly, by word and in writing, to an extent which makes even associations not affiliated to benefit by its action."

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"Yet one agitation with regard to the co-operative movement must be referred to, and that is the one got up by Ferdinand Lassalle. * * * Lassalle demanded the founding of productive societies by state-help without troubling himself to explain the method which he advocated. He intended with the help of the State, to turn the existing societies into a Union for Credit, which would embrace an Assurance Association compensating workmen for losses which might occur, so as to make them unnoticeable. Schulze rightly opposed this on the ground that such a union would 'dislocate credit in the most foolish way, while it would lay upon worthy and respectable men of business the burden which others have incurred through want of insight, frivolity and errors of all kinds.' Lassalle paid no attention to the failure of such state support already experienced in France. He did not consider that the State, through the granting of funds for new establishments, would create institutions which would compete with the undertakings which already received assistance, yet he hoped in this way to be able to obviate competition and risk. Competition, however, will only be got rid of through entire monopoly of industry. Lassalle did not get more than half-way in pressing his demands. With regard to the avoidance of risk Lassalle proceeded on the mistaken supposition that it was only caused by unregulated production, while in reality misfortune, want of knowledge, unfortunate speculations, bad harvests, have the most decisive influence on the prosperity of trade. Against the necessary and unavoidable risk involved in this there is no state protection."

"By Bismarck's permission, a productive association was founded on lines corresponding to Lassalle's way of thinking, but it could not maintain itself. The Chamber of Deputies likewise had busied itself with Lassalle's proposals, and Schulze expressed himself most strongly against any propping up of them from above. 'Only a minority,' he maintained, 'a small but perhaps powerful part can enjoy, at the cost of the general community, certain privileges, certain immunities, and other rights; but this system cannot be inverted. * * * Thus it is a mere chimera to suppose that 90 or 95 per cent of the population can

be sustained and provided with capital at the cost of the remaining 5 or 10 per cent.' Lassalle's plans remained mere theories, while Schulze's societies have risen to a place of economic importance. * * * How untrue is the assertion often made on behalf of other banks, that Schulze's credit associations are unable to do anything for agricultural credit, is best proved by the fact that in 1893, among the 1038 Schulze credit associations with 502,184 members, 26·3 per cent were artisan's while 31·3 were peasant's. * * * One arrangement deserves special mention, an arrangement which the credit associations have made with the help of the German Companies (Bank of Soergel, Parrisius & Co.) viz., the Circ Federation, the members of which cash acceptances falling due to one another without commission. While on the one hand, the credit associations meet with universal recognition, the merits of the supply associations are a subject of much dispute." (*Vide* Report of the 1st International Co-operative Congress, pp. 278—294.)

The undernoted extracts describing the Schulze system in Germany are taken from Nicholson's *Report on the Possibility of introducing Land and Agricultural Banks in the Madras Presidency*:—

"Schulze-Delitsch saw that it was essential, if the nation was to become worthy of the name, to turn the masses towards self-help, and to accustom them to rely on their own efforts and their own initiative to work out their national salvation. * * * His first association in 1849 was a Friendly society for relief in sickness; his second in the same year was an association of shoe-makers for buying raw material; in 1850 the first Loan society was formed with ten members, all artisans. * * * The Schulze-Delitsch banks do not indeed recognize any limit, but in practice it seems that, each bank operates in a small area; in the Raiffeisen banks this is an absolute rule. Hence there arises that local knowledge by the bank of its members, by the members of the bank and of one another, which seem essential to success in bringing credit to small agricultural folk. A further principle is that of association with unlimited liability—a principle which gives the maximum of credit possible in the absence of material pledge—compels the admission only of the more prudent and thrifty, binds the members together in a spirit

of fraternity and at the same time ensures that loans will only be advanced and spent for productive or useful purposes."

* * * * *

"*Methods*—The method is that of an association, each member subscribing a share and thus realizing a share capital to serve both as guarantee and as a lending fund as well as to enforce thrift; the association is one of unlimited liability, by the guarantee of which and of its shares outside capital is attracted, which is lent out on short-term loans to members only. The profits are credited to the share-capital, after allotting a certain amount to a reserve and to the payment of the directors and staff. Members can withdraw at pleasure, but can enter only after scrutiny by the society. No local limits are prescribed, but the office is usually placed in a town or large village."

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"*Formation of a Society*—Seven persons at least must unite to form a society; these must draw up the statutes (articles of association) the general subjects of which are laid down in the Law. A board of directors and a committee of supervision must also be elected by the general body."

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"*Clientèle*—Any one may be a member, who can prove that he is worthy of being such; candidates must show that they are prepared to join in the principles of self-help and thrift; admission is granted only after inquiry into the character and circumstances of the candidate by the directors or committee of supervision. As candidates are generally from the same village, petty town or neighbourhood, this is easy enough. Every member must sign a declaration of adhesion to the conditions of the society. The classes aimed at as *clientèle* are those who have no material capital, save perhaps some tools, yet possess a moral capital in their honesty, industry and skill; those particularly in view were the urban artisans and small traders, and agriculturists were not specially provided for; but nearly one-third of the members are agriculturists."

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"*Administration*—The societies are wholly autonomous and democratic; they are neither dependent on one another nor on any

external authority or institution. The general assembly is the source of power; this consists of all the share-holders each of whom has one vote and one vote only. This assembly elects the board of directors, but these are subject to the control of the council of supervision which can suspend them and call a general assembly for their dismissal. This council is, in its turn, amenable to the control of the general assembly."

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"*Loans*—The points for consideration under this head are the class of loans, their maximum amount, their term, the rate of interest and the security available. Loans are either simple bonds, bills with the personal guarantee of other members, ordinary bills of exchange, mortgages and cash credits."

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"*Term*—The regular term for loans and bills is in these banks short, viz: three months with prolongations; for cash credits the accounts are renewed or closed every six months. The first principle of Schulze-Delitsch in banking was that the term for loans should be no longer than that which the bank itself could obtain for its own borrowings. Borrowings by the bank are chiefly by deposits, and term deposits in Germany are usually for three months; hence the above term fixed for loans."

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"*Interest*—In the infancy of the banks, interest was as high as 14 per cent including all commissions, this being considered necessary for stability at first starting; but it soon fell to 10 and 8 per cent per annum, and the best now charge between 7 and 8 per cent including commission."

* * * * *

"*Unions*—These are of two classes, local or district, and central. * * * Finally, there is a Central bank at Berlin with a branch at Frankfurt for uniting financially the various banks and groups. * * * Though Schulze regarded this institution as extremely important, only a minority of the people's bank belonging to the general Union belong to it also." * * * *Vide Nicholson's Report on Land and Agricultural Banks*, Vol. I. pp. 134—142.

The following extracts showing the present position of the Schulze system in Germany are taken from the *Report to the Board of Agriculture of an Enquiry into Agricultural Credit and Agricultural Co-operation in Germany* by J. R. Cahill :—

“There were already in existence co-operative societies with unlimited collective liability, which had been created by Schulze of Delitsch, a small town in the Province of Saxony for the purpose of procuring credit for their members who were mainly artisans, small employers of labour and small shop-keepers. But Raiffeisen had in view the needs of agriculturists.” (pp. xiv, xv.)

* * * * *

“Compared with the ordinary urban credit societies of the Schulze-Delitsch type, which were originally organized for the special purpose of furnishing credit to small traders, employers and artisans in towns, many important differences appear. The areas of the banks of the latter kind are not narrowly limited ; shares are high, being rarely less than £15, and sometimes reaching £75 and £100 ; there is no indivisible reserve ; loans are usually made only for terms of three months, when they are subject to renewal, and are repayable in a lump sum ; dividends, sometimes very high dividends, are paid ; regular banking offices are maintained with at least two permanent paid officials, who form the committee of management, while the members of the board of supervision receive remuneration ; the banks confine themselves to pure banking business ; and their offices are usually in towns. At the beginning of 1912, out of a total membership of 641,429 members in 1002 credit societies, 26·61 per cent were returned as ‘independent farmers, gardeners, foresters and fishermen.’ In certain districts farmers are attached in large numbers to these societies, which had spread, notably in the smaller towns of the Eastern Provinces of Prussia, before the Raiffeisen movement was introduced in those parts. * * * In many cases where a noteworthy percentage of such members is returned, they are to a great extent large farmers, the particular society meets the special needs of landowners by making loans for longer terms than the majority of Schulze-Delitsch banks do, allows easy terms of repayment, and in other ways adopts the usual principles of the Raiffeisen

societies. There is also a certain number who become members, not with a view to borrowing, but merely for the sake of investment of savings, either as shares or as deposits, at a high rate of interest—shares are frequently as high as £75, and dividends at 6 or 7 per cent not uncommon.” (p. xv).

* * * * *

“As it is a principle of the Schulze-Delitsch system that the area chosen should be of a kind to allow of the development of a regular banking business capable of supporting a salaried staff of at least two persons and of yielding substantial dividends on shares, these societies are established in towns or must cover fairly wide areas. The feasibility of the minute supervision of their credits is thus diminished and their usefulness to small farmers seriously impaired. Their large membership renders impossible personal relations between members: in 1911 the average membership was 623 and there were societies with 11,650 members, 8,987 members, and several with from 2000 to 5000. Their business attains sometimes immense proportions; some banks visited by the writer showed annual turnovers of £21,000,000, £10,700,000, £6,700,000 and £3,600,000. Their credit is dearer and for shorter periods than that granted by the Raiffeisen banks. They represent in a large measure commercial, profit-seeking undertakings, being rather companies of lenders having as their primary object the earning of dividends rather than the provision of cheap credit. Many have developed into ordinary commercial banks, others have been absorbed or converted into branches of large joint-stock banks. The smaller societies tend, however, by reason of their being localised institutions with organs of administration composed of many persons representative of the various producing classes of members, to be in a better position than proprietary or joint-stock banks to judge the character and standing of such persons, and thus aid small men unable to furnish ordinary banking security. The general unsuitability of this type of society for German farmers is shown by the circumstance that, while they have made no progress in country districts, the Raiffeisen type continues to spread in these districts.” (pp. xv, xvi.)

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“The Schulze-Delitsch societies do not bind themselves to deal exclusively with any central bank, but carry on business with any bank that suits their convenience.” (p. 107.)

Model Articles of Association issued by the Schulze-Delitsch Federation (Extracts)¹

1. The object of the undertaking is the conduct of banking business for the purpose of providing the capital required by the trade and business of its members.

2. The working capital consists of :

- (1) the funds of the co-operative society formed from entrance fees, payments on shares, and the appropriations of annual profits to the share capital and reserve funds,
- (2) outside funds which shall be taken up according to the needs which present themselves in the course of business.

3. The co-operative society shall control its affairs with the participation of all its members. Its organs shall be :

- (1) the committee of management,
- (2) the board of supervision,
- (3) the general meeting.

4. The committee of management shall consist of—

- (1) a director,
- (2) a cashier,
- (3) a comptroller.

* * * * *

The members of the committee of management shall be elected subject to three months' notice on either side. On the part of the co-operative society, notice is effected on the proposal of the board of supervision by resolution of the general meeting. In the execution of the agreement on appointment, in which the remuneration to be given to the members of the committee of management is also to be fixed, the society shall be represented by the board of supervision.

* * * * *

50. The society accepts, on the business terms relating thereto which shall be drawn up, funds either from members or non-members, so far as the credit needs of its members render this necessary. It enters

¹ Reproduced from the Appendix in Cahill's *Report to the Board of Agriculture*.

into business relations with banking institutions and banks and acquires credit therewith as needed. It enters into business relations with other co-operative societies, especially for the purpose of reciprocal transfer and collection (of bills, &c.).

The society grants loans to its members for fixed periods discounts bills for them, and opens current accounts with them, with or without extension of credit. It transacts business in stocks and shares for the members on commission.

The co-operative society may only acquire real estate for the purpose of acquiring permanent business premises of its own, and temporarily, for the security of a claim which is endangered.

The society may only purchase State and other securities for its own use for the purpose of investment of the reserves or for the temporary employment of unapplied cash balances.

Any kind of speculative business is forbidden.

51. Credit may only be granted to members of the society, and then only to such extent as the personal credit of the member seeking it and the security furnished permit.

52. Security for credit granted may be furnished—

- (1) by the provision of one or more sureties,
- (2) by the pledging of sound claims,
- (3) by the pledging of good State or other securities enjoying a quotation on a German Exchange.

53. The members of the committee of management are excluded from all grant of credit during their term of office.

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55. Members of the committee of management and of the board of supervision cannot be accepted as sureties during their term of office.

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62. The general meeting shall decide by resolution as to the disposal of the net profits. These, provided they be not appropriated to the reserve fund¹ by like resolution, or employed for writings off in respect

(¹ This reserve fund is kept usually for the purpose of covering business losses.)

of the assets of the society, or for other purposes, shall be divided amongst the members in proportion to the paid-up share capital of each.

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THE LUZZATTI SYSTEM

The undernoted extracts are taken from a Paper read in the 1st International Co-operative Congress by Signor Enea Cavaleri, Secretary of the Association of People's Banks in Italy (*Associazione fra le Banche Popolari di Italia*):—

"The story of People's Banks in Italy is soon told if figures only are cited. Lodi heads the list in 1864, Cremona, Bologna, Piacenza, Siena, and Milan follow in 1865; all had the humblest beginnings. The capital of the Milan Bank did not exceed 27,000 *lire* to start with. In 1869 the number of these banks was 40 with a total capital little short of seventeen million *lire*; the following year they numbered 50, 64 in 1871, 80 in 1872, 100 in 1874, 140 in 1880, 540 in 1886, 700 in 1890: to-day we can claim 720. The capital, reserves, and deposits grew in proportion. At the end of 1875, the 109 banks could boast of 37 million *lire* capital, 8 million reserves and 113 million deposits; in 1890 the figures were 95 million capital, 25 million reserves and 350 million deposits."

"Then questionings arose, success roused envyings, which gave rise to accusations, to ill-natured criticisms. Because several banks grew rich, without deviating in the least from their early traditions, doubts were raised as to the truly democratic character of their management. * * * It may well happen that some institutions have in the days of their prosperity fallen short of the altruism which led to their foundation, as to-day in the People's Bank at Milan the ardour of co-operation has cooled, yet who will dare deny that in the days of Mangili and Pedroni it had glorious records, and that to these men is owing in great part the large number of co-operative institutions of that city; or who would doubt that new men will arise to guide it back to the older and better way."

"People's Banks undoubtedly owe much to the Friendly Societies which in a thousand ways favoured their establishment and extension; but in their turn the banks gathered all the ardent minds

round the banner of co-operation by promoting supply agencies, encouraging and founding co-operative production, offering credit to labour associations and farmers' associations. The People's Bank of Bologna, while it invests eight million *lire* in loans to persons engaged in trade and manufacture, gives four and a half million to agriculturists, principally for terms of one year, under the form of current accounts, where the same rate of interest is paid on the debit and credit side, so that the farmer pays on what he actually draws."

"The People's Bank of Cremona is an example of that which has opened branch offices in country districts, the better to carry on this system, and it is worthy of remark that, notwithstanding this increased field of operations, the proportion of loans only once renewed is only 25 per cent, while those renewed twice amount to but 5 per cent of the whole number. This bank was accused of having even embarked in mortgages on land. I do not deny that in general such a course is too daring for People's Banks, but in this case it was carried out within the most prudent limits, and on the most truly democratic lines, so that the small holder who had seen his father's lands in danger of a forced sale could repay capital and interest of the loan he received from the bank in 29 years at the moderate charge of $5\frac{1}{2}$ per cent. including income-tax. The importance of the results justified the venture. * * * The constitution of People's Banks enables them to benefit on a very large scale both manufacturers and agriculturists. Now without wishing in the least to minimize the merits of Rural Loan and Deposit Societies (*Casse Rurali* of the Wollemborg type) I may be allowed to say that, though they help the humble, they never supplement medium or large incomes. The People's Banks on the contrary begin with the humble, but can also benefit the other two in a supplementary way. Mr. Wolff has said that one of the chief technical difficulties lies in so dealing with the non-marketable securities offered by co-operators as to render them negotiable and capable of acceptance by ordinary bankers, and he is certainly right in so far as this means that it is necessary to give a wise and sound base to personal credit. To overcome this difficulty the conviction that People's Banks are not solely loan agencies but also Savings Banks, will do more than any State intervention or extraneous assistance. * * * Luzzatti animated by the true spirit of co-operation undertook

willingly, not only to teach the principles of his belief, but in the early days to work as an unpaid clerk ; and not even when burdened with onerous duties as Chancellor of the Exchequer did his interest flag. We owe our grandest results to a band of generous workers, possessed of but humble incomes, who worked for years with disinterested zeal till their foster-child proved itself strong and independent."

"The patrons of the Italian Banks hold that capital must occupy the position of servant, not of master. Acting on this principle, whenever there are large profits to be divided, they are not distributed entirely to the shareholders but are devoted partly to increasing the reserve fund, partly to decreasing the rate of interest charged on loans, and adding to the interest on liabilities. * * * As to the relationship between the People's Banks and the Issue Banks in Italy, it consists only of the discounting by the latter of the bills held by the former. The Issue Banks seek and accept with pleasure the bills of the People's Banks because of their excellence. The People's Banks in doing these operations with the Banks of Issue avail themselves of the common right and are in no way responsible, either morally or materially, for the standing and doings of the large banking establishments. Monsieur Many has objected that discounting with a Bank of Issue is not a co-operative operation: I answer that this discounting is an operation by which cash is acquired and is therefore an absolutely necessary one for any banking concern. By this discounting, banks obtain the monies they require, getting rid of their useless holdings. There is no difference between having recourse to third parties for discounting bills and purchasing goods for third parties. This last operation has never been contested—why should the other?" (See *Report of the 1st International Co-operative Congress*, pp. 148—154.)

The undernoted extracts describing the Luzzatti system in Italy are taken from Nicholson's *Report on the Possibility of introducing Land and Agricultural Banks in the Madras Presidency*:—

"Like the Credit Unions founded in Germany by Schulze, the Italian Co-operative People's Banks are simply associations by means of which artisans; peasants, small tradesmen and in fact all classes

of persons who, though honest and intelligent could not otherwise obtain credit without submitting to every form of usury, combine to establish a local self-governing institution of credit to meet their requirements. * * * In connection with this subject, Signor Luzzatti observes that 'in an ordinary joint-stock company the member's money is the main object considered, but in a co-operative credit association the person of the share-holder is of much greater importance than the share itself, since in the latter society the moral worth of the persons who compose it, united as they are for the purpose of obtaining by means of co-operation, the credit which they would not find in other institutions, supplements and completes the material worth of the shares, which are accumulated gradually, and even in some cases by weekly instalments of a few centimes.' In order to secure the efficiency of such a moral guarantee, it is most desirable that the members of the association should be well-known to each other, especially during the early period of its existence and that the bank authorities should maintain a strict supervision over the granting of loans and advances."

"The area in which the operations of the bank are carried on must, therefore, not be too extensive, so that its members may have frequent opportunities of intercourse with it and with one another, and be able to take an active part in its management without personal inconvenience and Signor Luzzatti accordingly recommends the conversion of branches of existing banks into independent institutions whenever their condition is sufficiently flourishing to justify such a course, as well as the foundation in large centres of population, of small independent banks, side by side with those already established. * * * Hence to induce both the superior and the industrial classes to join, the principle of limited liability has been adopted universally for the Italian Popular Banks. At the same time since the success of mutual credit societies largely depends on the character of its members, strict regulations are provided for the admission of members, so that the societies may, as much as possible, realise the 'capitalization of honesty' and attract capital not merely by their material but by their moral guarantees."

* * * * *

"Signor Luzzatti, in his review of the work of these banks, states that funds are obtainable in any quantity and that the

ordinary banks are only too willing to lend money at moderate rates. The Banks of Naples and Sicily are very forward in their offers to discount at favourable rates and to supply the funds for the first start. * * * As the banks re-discount their bills, funds are continually returning to them for fresh work; in 1886 the 16½ million sterling of available funds did work to the amount of about 49 million sterling; in other words, they were turned over three times. * * * It is clear, therefore, that bills of exchange can be profitably drawn and discounted for very trifling sums and thus enable small folk to obtain small loans, while enabling the bank to keep its portfolio in a negotiable form." (*Vide Nicholson's Report on Land and Agricultural Banks*, Vol. I, pp. 163—168).

Model Articles of Association of a Popular Bank in Italy of the Luzzatti System (Extracts).¹

1. A Co-operative Credit Association with limited liability is hereby established at.....under the name of the People's Bank of.....

2. Its object is to provide credit to its members by means of co-operation and saving.

* * * * *

5. The capital of the association shall consist of—

- (a) the shares subscribed by the members, the value of each share being.....lire;
- (b) the reserve fund;
- (c) such special funds as may be created for particular purposes.

6. The bank may, in order to extend its operations, contract loans and accept deposits of money, whether interest-bearing or without interest, on the security of its social capital.

* * * * *

25. The association undertakes—

- (a) the granting of loans and the discounting of bills of exchange, warrants, specifications of work undertaken, accounts (or bills for goods), orders of public departments, and treasury, provincial and municipal bonds;

¹ Reproduced from Nicholson's *Report*, Vol. II, pp. 117—120, where they are taken from Levi's "*Manual for Popular Banks*."

- (b) the granting of loans upon trust ;
- (c) operations of credit in behalf of agriculture ;
- (d) the granting of pecuniary aid on the security of public stocks ;
- (e) the opening of accounts current upon the guarantee of two or more persons in good standing ;
- (f) the receipt of deposits in cash ;
- (g) *servizio di cassa*, i.e., collections and payments, whether in behalf of members or of non-members.
- (h) the receipt of valuables (securities) for safe-keeping or for the collection of the interest thereon.

* * * * *

31. Bills of exchange presented for discount must bear at least two signatures of persons well-known and in good standing, and be drawn for a term not exceeding six months from the date of presentation.

* * * * *

ORGANS OF THE ASSOCIATION

51. These are—

- (1) the general assembly of members ;
- (2) the board of directors (*amministratori*) ;
- (3) the business manager, the necessary clerks and employees ;
- (4) the committee of control (*sindaci*) ;
- (5) the discount committee ;
- (6) the committee of arbitration (*probiviri*).

* * * * *

53. The ordinary general meeting shall take place once a year, not later than the middle of March, at this meeting—

- (1) the report and balance-sheet for the preceding year shall be presented for approval ;
- (2) the officers of the association shall be elected for the current year.
- (3) any other matters within the competency of the general assembly shall be discussed.

CO-OPERATIVE CREDIT IN AUSTRIA

The following extracts are taken from a Paper read in the 1st International Co-operative Congress by Dr. Carl Wrabetz, President of the Union of Co-operative Associations in Austria :—

“The first Austrian co-operative society was the Credit Association of Klagenfurt founded in 1851. * * * According to the report of the Imperial and Royal Statistical Central Commission in Vienna, there were at the end of the year 1893, 2825 societies of which as many as 2118 were credit associations. * * * More than three-quarters of these Banks are of the Schulze-Delitsch system, the rest (scarcely 300 in number) of the Raiffeisen system. The banks of the latter system are mostly very small and their business is limited. A general account of their business returns only exists with regard to some provinces.”

“In Lower Austria in 1891, the number of members of the Raiffeisen Banks amounted to a sixth of the whole number of members of credit associations; the loans of such banks represented one thirty-second part of the whole sum lent. In most Austrian provinces the Raiffeisen Banks were helped and befriended and even assisted with subventions from the provincial exchequers and especially favoured with regard to dues and taxes, while the Schulze-Delitsch Banks did not enjoy an equal share of favour. The reason for this difference in treatment lies in the fact that the Schulze-Delitsch Banks are built up on a more business-like and less purely benevolent basis. Yet, or rather perhaps for that very reason, they have developed more largely and deal with larger capitals. To the last-named circumstance they owe the demands made on them by the Exchequer, which is only wont to spare small and unimportant associations.” (See *Report of the 1st International Co-operative Congress*, pp. 346, 350).

CO-OPERATIVE CREDIT IN FRANCE

The following extract is taken from a Report sent to the 6th International Co-operative Congress by Professor

Charles Gide, President of the Central Committee of the French Co-operative Union of Distributive Societies :—

“The number of co-operative credit societies which in 1902 stood at 873, had by 1903 grown to 1,038. They may be divided into four groups. These are, first, the village banks of the *Union des Caisses Rurales*, mainly Roman Catholic, and composed exclusively of societies of the purest Raiffeisen type. The Union has its seat at Lyons and embraces 409 societies all of which are small. Next, there are the societies grouped around the *Centre Fédératif du Crédit Populaire* which has its seat at Marseilles, numbering 305 whereof 7 are town banks. In the third place there are the independent credit societies, formed as a rule by agricultural syndicates and numbering 273 (19 in towns). Lastly, there are regional banks, *Caisses Régionales de Crédit*, which exist for the purpose of dealing out credit to local societies, drawing themselves upon the Bank of France for their funds. The Bank of France in 1897, as the price of the renewal of its charter, was made to place a capital of 40,000,000 francs at the disposal of agricultural credit, and in addition to subsidize it for a long term of years with a fixed portion of its annual profits. Up to now, 28,697,249 francs have been allotted to this purpose in accordance with the law. However, not more than about 8,000,000 francs of this has actually been claimed, from which it would appear that French farmers and the peasantry do not stand in great need of credit, or else that they have not yet been brought to understand its use.” (See *Report of the 6th International Co-operative Congress, 1904*, p. 474.)

THE AIMS OF CO-OPERATION

In the 7th International Congress of Co-operation held at Cremona in 1907, H. E. Luigi Luzzatti, Minister of the Italian State, made the following remarks in his presidential address :—

“We invite them (our foreign guests) to visit Reggio Emilia where they will admire new forms of agricultural co-operation, and where they will see in course of realisation, as the result of courageous legislation, an undertaking which it seemed folly to dream of, an entire railway line built and worked by co-operative associations of

workmen. * * * We think all theories are good, but the best is that which saves the greatest number from the usury of money, the usury of rent, the usury of food; the best is that which most fully achieves the purpose of raising these people bowed to the ground. * * * That doctrine is the purest, even if it disobeys some metaphysical laws of economic principles. * * * I look forward to a co-operative organization in which each of us, while feeling himself a citizen of his own country, shall also feel himself a citizen of a more perfect and advanced humanity; of a humanity freed as far as possible from all the political, moral, and economic usuries which still afflict us; of a humanity in which equitable rewards proportionate to deserts, equitable payments, equitable prices, for which men sighed all through the Middle Ages and of which the Canon Law and St. Thomas Aquinae reasoned in vain, will come to us from the perfectly balanced scales of co-operation which eliminate of themselves all usury, all waste, and every force which asks payment for itself without having contributed its share of labour."

The following extracts are taken from the Report of the 8th International Congress of Co-operation held at Hamburg in 1910:—

"Intelligent men in every country," said Mr. William Maxwell in his presidential address, "are yearning for a more sane state of society where capital and labour shall work together harmoniously by the power of co-operation. The rapid accumulation of capital in the hands of co-operators all over the world abundantly proves the power of our cause."

"We do not want," said Professor Standinger (Darmstadt), "the domination of man over man, we want to work together on a footing of mutuality. * * * This real and practical union of humanity will be the means of bringing about the higher moral consciousness and producing the higher development of the society of the future."

"Co-operation is as it were," remarked Professor Toennies (Kiel), "a wedge that is being driven into capitalism, the effects of which it is at present impossible to gauge."

"The International Co-operative Alliance," observed Professor Charles Gide (Paris), "is the only one which really justifies its

beautiful name and uses this word in its true sense, for it does not recognize double or triple alliances, it is a simple alliance of all for the good of all."

The undernoted important Resolution was adopted in this Congress :—

"The 8th International Co-operative Congress at Hamburg considers that Co-operation, year by year increasing in importance in all countries, is essentially a social movement which, by the formation of economic associations based upon mutual help, aims at the protection of the interests of labour, manual and intellectual. Therefore, all true forms of Co-operation tend to influence the distribution of the wealth of the nations in favour of the working classes, i.e., : to increase the income derived from labour and to strengthen its purchasing power."

APPENDIX

(Continued)

STATISTICS

EXTENT OF CO-OPERATIVE CREDIT

Speaking of statistics relating to co-operation, Dr. Hans Muller, editor of the *Year-Book of International Co-operation, 1910*, (issued by the International Co-operative Alliance, London, the federation which convenes the International Congress of Co-operation) remarks that "co-operative statistics are not drawn up in anything like uniform order in most European States." Moreover, the difficulty regarding such statistics is quite obvious because a large number of societies furnish no statistics whatever. He concludes by saying that "for the present we must be content to accept the statistics of the international co-operative movement as a collection of fragments." The following tables are compiled from statistics given in this *Year-Book* which contains figures in more or less uniform order on co-operative credit in Europe since 1906. The table for India is compiled from statistics given in the *Proceedings of the 4th Conference of Registrars of Co-operative Societies in India, 1909*. These tables give an idea of the extent of this credit in some of the countries of its adoption.

CO-OPERATIVE CREDIT IN GERMANY

The first credit society was formed at Flammersfeld in 1849 and the number of credit societies in 1908 was 16,692.

	1907	1908
	(Rural)	(Urban)
Number of societies furnishing returns ...	11,692	919
	(Marks)	(Marks)
Credit granted	736,992,250	3,598,695,758
Net Profits	6,071,491	19,476,385

CO-OPERATIVE CREDIT IN AUSTRIA

The first credit society was formed at Klagenfurt in 1851 and the number of credit societies in 1909 was 9316.

	1906	1908
	(Rural)	(Urban)
Number of societies furnishing returns...	4,151	398
	(Kroncs)	(Kroncs)
Credit granted	292,876,880	525,613,329
Net profits	1,420,807	3,632,423

CO-OPERATIVE CREDIT IN RUSSIA

The first credit society was formed at Dorovatovo in 1865 and the number of credit societies in 1908 was 5,000.

	1906	1908
	(Schulze type)	(Raiffeisen type)
Number of societies furnishing returns...	902	2,853
	(Roubles)	(Roubles)
Credit granted	55,275,000*	43,031,000
Net profits	1,514,000	1,732,000

CO-OPERATIVE CREDIT IN FRANCE

The first credit society was formed at Puteaux in 1866 and the number of credit societies in 1907 was 2185.

	1907
Number of societies furnishing returns	(Rural) 2,168
Credit granted	(Francs) 70,708,456

CO-OPERATIVE CREDIT IN INDIA

The first credit society was probably formed in the Madras Presidency in 1900 and the number of credit societies in 1909 was 2008.

	1908	1909
Number of societies furnishing returns	(Rural and Urban) 1,357	(Rural and Urban) 2,008
Credit granted	(Rupees) 3,693,018	(Rupees) 5,999,924
Net Profits	180,916	326,265

PROGRESS OF CO-OPERATIVE CREDIT

From the foregoing tables some idea will be formed of the extent of co-operative credit in the important countries of its adoption excepting Italy, but the following statistics will show how this credit has progressed in recent years in some of these countries :

CO-OPERATIVE CREDIT IN ITALY

"Statistics of Italian co-operative societies," states the *Report of the 6th International Co-operative Congress, 1904*, "are neither complete nor are they in agreement among themselves. A government return recently published gives the total of People's Banks (that is, co-operative credit societies of the Luzzatti type) known to exist at the end of 1902 as 736. * * However, this leaves out of account about 1187 agricultural credit societies (*casse rurali*). In that year, 594 People's

Banks furnished returns in which the money borrowed is given at 539 million *lire* and the savings deposits at 313 million *lire*. (p. 503). In the *Year-Book of International Co-operation, 1910*, the number of credit societies in Italy at the end of 1907 is given at 2370 being made up of 1526 societies of the Wollemborg type and 844 banks of the Luzzatti type. (p. 152).

STATISTICS OF CO-OPERATIVE CREDIT IN GERMANY

A very fair idea of the progress of co-operative credit in Germany may be obtained from the following tables given in the "Report to the Board of Agriculture of an Enquiry into Agricultural Credit and Agricultural Co-operation in Germany" by J. R. Cahill, London, 1913.

"The following table," says this Report, "shows the periods within which rural credit societies (excluding central societies) existing in the German Empire were established:" (p. 64)

Period of establishment	Number of Societies	Number of Members
From 1849 to 1866	30	7,646
Do. 1867 ,, 1888	1,253	220,721
Do. 1889 ,, 1894	2,657	328,291
Do. 1895 ,, 1903	7,589	675,993
Do. 1904 ,, 1908	3,067	157,809
TOTAL	14,596	1,390,460

"The recent progress and present position (down to January 1, 1911) of the rural credit societies attached to the Imperial Federation of Agricultural Co-operative Societies," continues this Report, "may be seen from the annexed table which gives the most important results of each year's working from 1906 to 1910. The statistics may be taken as representative of all German rural credit societies, in as much as for each year over 80 per cent of all existing societies are taken into account." (p. 99).

STATISTICS OF RURAL CREDIT SOCIETIES IN GERMANY.*

Societies attached to the Imperial Federation.		1906	1907	1908	1909	1910
Number of Societies reporting	...	11,373	11,649	12,161	12,614	12,797
Membership	...	1,015,108	1,059,348	1,111,174	1,163,186	1,208,997
Turnover	...£	158,703,442	179,029,103	196,272,076	222,808,076	247,000,195
Sums outstanding with members on loans for fixed periods at end of the year	...£	40,688,552	44,789,209	18,375,830	54,122,319	59,548,394
Per member	...£	42	47	48	53	58
Loans granted for fixed periods during the year	...£	12,217,722	13,295,051	12,843,885	14,374,195	15,539,559
Per member	...£	13	14	14	14	15
Savings deposits during the year	...£	19,607,857	20,704,178	22,652,390	25,267,984	27,080,443
Per member	...£	18.8	20.1	22	21.7	22.4

* "This table has been compiled from the Year-Books of the Federation, the figures given being merely changed into English currency at the rate of 20 marks to the pound sterling." (p. 100).

"No branch of German rural co-operation," states this Report, "has attained such remarkable success as that of co-operative credit. On January 1, 1913 there existed in the German Empire, according to the return of the Imperial Federation, 16,927 credit societies. In 1910, the total turnover of 14,729 societies amounted to £291,635,100, and at the end of the year the loans outstanding for fixed periods together with overdrafts to £93,034,000 while at the same date the savings deposits totalled £92,429,000 and the deposits on current accounts £10,865,000." (p. 63).

"The record of German rural credit societies" remarks this Report, "stands in still stronger relief when it is compared with that of ordinary commercial banking and credit undertakings. According to figures quoted by Dr. Grabein from the official bankruptcy statistics, there occurred between 1895 and 1905 a total of 386 bankruptcies among some 6000 such businesses. Calculating the frequency of bankruptcy per 10,000 undertakings for rural co-operative banks and private credit institutions over this period, the same writer computes that failures were 55 times more frequent among the latter than among the former." (p. 84).

"The business done by the Central Banks," continues this Report, "has reached enormous dimensions. In 1910 the turnover of 36 Banks within the Imperial Federation amounted to £324 millions, and in 1911 their turnover was nearly £400 millions." (p. 140).

STATISTICS OF CO-OPERATIVE CREDIT IN INDIA

At the 6th Indian Co-operative Conference held in 1912, Sir Edward Maclagan referred to statistics relating to the benefits of co-operative credit in India :--

"If we take the question of saving in interest alone," he declared, "the benefit done has been very great and is increasing. We may fairly assume that the saving on each loan given out by societies during the year to agriculturists has amounted to at least 10 per cent, and the result is that at a low computation we save the agriculturists of India from an absolutely unnecessary burden of at least 10 lakhs of rupees for every crore of rupees lent out by co-operative societies. And the sums so lent out have already begun to be counted in crores." (See *Report of the 6th Conference of Registrars of Co-operative Societies in India, 1912*).

CO-OPERATIVE CREDIT IN INDIA

The undernoted tables are compiled from the "Statement showing progress of the Co-operative Movement in India during 1912-13" published by the Government of India, 1913.

PROGRESS OF THE MOVEMENT SINCE 1907-08

	1907-08.	1908-09.	1909-10.	1910-11.	1911-12.	1912-13.
Number of Societies	...	2,008	3,498	5,432	8,177	12,324
Do. of Members	...	184,889	230,698	314,101	403,318	573,536

POSITION OF THE MOVEMENT IN 1912-13

Class of Societies.	Members.	Capital.	Loans issued to members.	Profits.	Deposits and loans by members.
Agricultural (rural)	467,378	Rs. 28,600,000	Rs. 21,597,775	Rs. 1,318,431	Rs. 1,827,567
Non-agricultural (urban)	76,378	5,500,000	5,414,479	268,190	2,646,808
Central ...	29,780	19,334,261	768,435	429,793	3,272,420
TOTAL.	573,536	53,434,261	27,810,689	2,016,414	9,746,795

DETAILS OF THE CAPITAL OF SOCIETIES IN 1912-13

Loans from private persons.	Loans from other societies.	Share-capital.	Deposits by members.	State-aid.	Reserve.	Total.
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
13,362,788	19,361,345	8,619,793	9,354,645	1,127,547	1,608,143	53,434,261

THE NEED OF CREDIT IN INDIA

"Credit is India's missing link, and until the link is fitted India will remain low in the scale of civilisation," said Sir Daniel Hamilton—who was a prominent merchant in India for many years—in a paper he read before the East India Association in London in March 1915. He showed that from January to July, 1914, Canada borrowed £35,000,000 from the outside world, most of it from London. India, he supposed, borrowed in the same time only about £3,000,000. The above observation of this experienced business man is significant, as modern economic history shows us that, natural resources and labour being abundant but capital being insufficient, until a nation is able to develop its system of credit so as to increase its organisation and circulation of capital, it cannot rise economically, and, consequently, it is left behind in the progress of civilisation. Industrial efficiency is also needed for economic advancement, but this cannot come until capital is available at least for the adequate remuneration of labour, else, why should economists say that high wages are essential to efficiency? Hence, at a certain stage of economic evolution, the development of credit becomes the greatest need in a country; and, when this is attained, it really indicates the material and moral advancement of her people.

RURAL CO-OPERATIVE CREDIT IN FRANCE

The undernoted extracts relating to Local Banks, which provide for a portion of the rural credit of France, are taken from the "Bulletin of Economic and Social Intelligence" (January, 1912) issued by the International Institute of Agriculture at Rome:—

"The example of other countries, and especially of Germany and Italy, a report by Leon Say which drew the attention of the French agricultural world to the excellent development of agricultural credit in Lombardy, the encouraging results obtained in the matter of urban credit by the Popular Bank of Mentone, all these facts convinced those who were at the head of the movement that agricultural credit, in Say's now celebrated phrase, ought not to be organised from *above* but from *below*; it was started for the most part by the initiative of the persons interested, united in the bonds of mutuality. (p. 60). The development of subsidised agricultural co-operative credit appears still better if the

business of the Local banks be examined. (p. 73). As to the co-operative spirit animating the Local banks, these banks created by the law of 1894 resemble the rural Raiffeisen banks, but they differ from them as far as capital, liability and distribution of the profits are concerned. A study of these banks, from this point of view will show that they greatly resemble the Schulze-Deitsch type. However, a large number have adopted the system of joint and several liability. (p. 61). When it is considered that these fundamental organs of agricultural credit, which started scarcely ten years ago, have passed the following stages :

			Banks	Members
1901	...	...	309	7,993
1905	...	...	1,335	61,874
1910	...	...	3,338	151,621

the vitality of the system will be seen." (p. 73).

"The loans granted by the Local Banks to farmers, after the deduction of those which had been made before the end of the previous year, are divided in the following manner for the period 1901-1910" (p. 73):—

	Francs		Francs
1901	... 5,170,045	1906	... 37,141,000
1902	... 14,302,651	1907	... 45,376,000
1903	... 22,451,167	1908	... 61,310,000
1904	... 30,235,063	1909	... 63,742,000
1905	... 31,459,090	1910	... 70,533,300

"In the meanwhile, let us see the operations carried out by the Local Banks in 1909-1910" (pp. 73,74):—

		1909	1910
Number of Local Banks	... ..	2,983	3,338
Number of adherents	... ..	133,382	151,621
New loans granted during the year, not including renewals	... ..	(Francs) 63,742,093	(Francs) 70,533,340
Loans running at the end of the previous year	... ..	40,126,197	42,671,323
Total	... ..	103,868,290	113,204,663

RURAL CREDIT SOCIETIES IN HUNGARY

The following extracts relating to a group of rural credit societies in Hungary are taken also from the aforesaid Bulletin :—

“Although the network of co-operative credit societies of which we have been speaking extends also to the annexed countries (the territory between the Drave and the Save), a special network of co-operative societies is at work in this part of the country; they include the Servian Farmers' Co-operative Society and the Servian Agricultural Association's Co-operative Society, with head-quarters at Zagreb. At the end of 1909 there were 297 of them with 10,031 members. Their development may be seen from the following table :—

YEAR	Number of Societies	Number of Members	Loans in Crowns
1897	10	159	5,540
1898	40	1,030	113,869
1899	50	1,321	180,535
1900	67	1,721	208,030
1901	85	2,268	321,801
1902	140	3,799	620,828
1903	179	5,278	948,798
1904	217	6,298	1,296,468
1905	235	7,227	1,635,754
1906	242	7,487	1,877,160
1907	251	7,887	2,159,211
1908	283	9,082	2,445,965
1909	297	10,031	2,611,966

Up to the end of 1909 the 10,000 members had paid 610,000 crowns in the form of shares. The reserve fund of the co-operative societies is 571,057·40 crowns; their debts with the Centre 5,071,602·45 crowns; the deposits in the savings' banks of the different co-operative societies 9,071,023·28 crowns, the permanent deposits 1,168,554·05 crowns, and the profits of the co-operative societies 109,951·05 crowns. The members of the co-operative societies are farmers who contract loans for the most part for agricultural purposes.” (pp. 113, 114).

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